Annual Report 2011

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)

What We Do

EE is in the upstream hydrocarbons and natural resources businesses which mean we explore for, develop and produce hydrocarbons and other natural resources — the major and essential source of energy and development for the world today.

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

Natural Gas this low carbon energy source is widely used in North America 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.

Other Commodities the enormous growth in demand for natural resource commodities driven by high economic growth in China and elsewhere in Asia-Pacific has created extraordinary opportunities for value creation. The opportunities exist across the spectrum of resources especially in industrial minerals and minerals utilised in hydrocarbon production technologies.

Contents

Corporate Information

Executive Directors

Mr. Chan Wing Him Kenny
(Chairman and 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. Lo Chi Kit *(Chairman)*
Mr. Chan Wing Him Kenny
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

Corporate Information

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
Certified Public Accountants

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

Mr. Ken Wong *(Information Technology Manager and Corporate Communications Coordinator)*
email: ken.wong@enviro-energy.com.hk

Public Relations

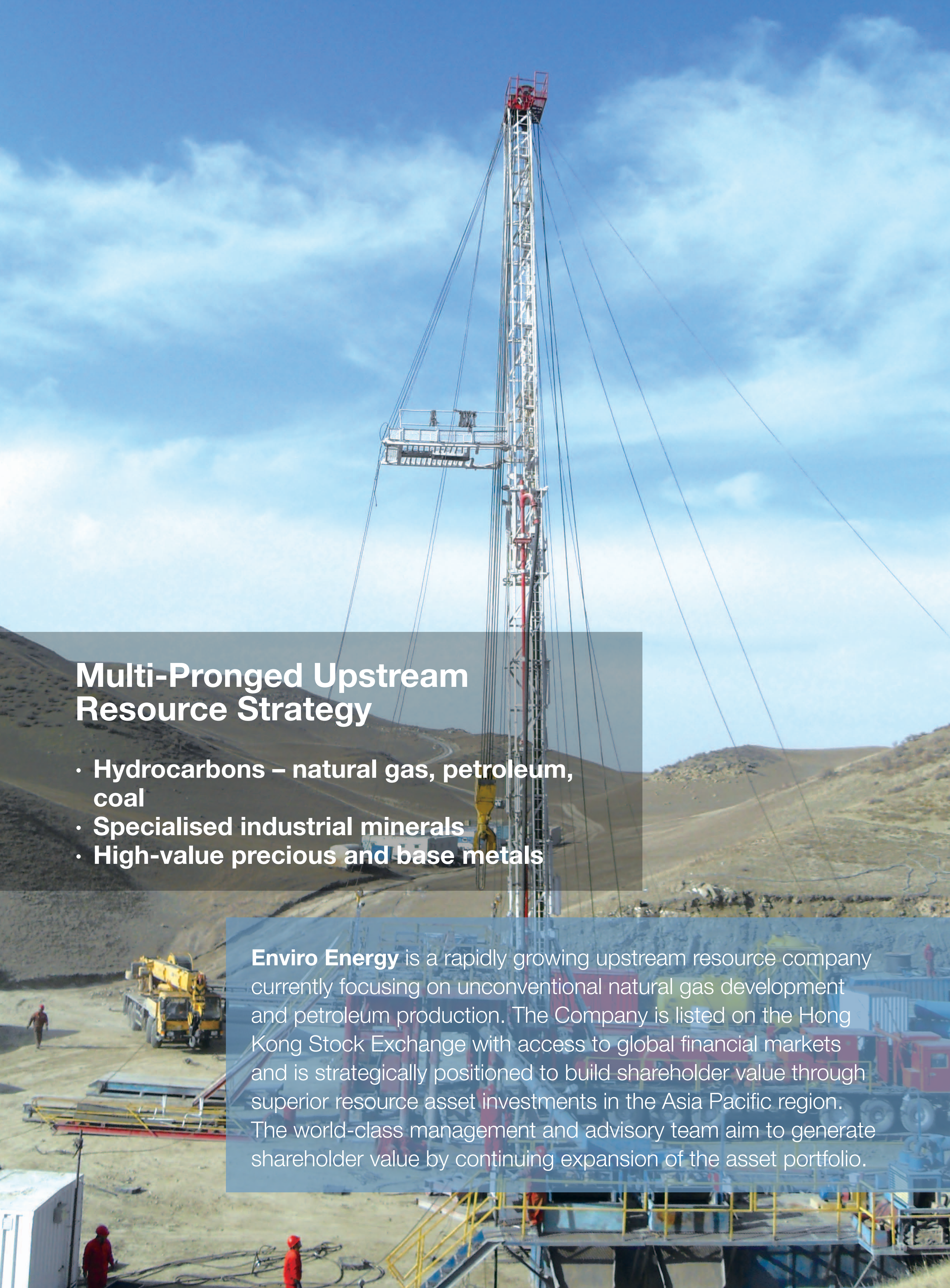
Strategic Financial Relations Limited

Company Website

www.enviro-energy.com.hk

Stock Code

1102.HK



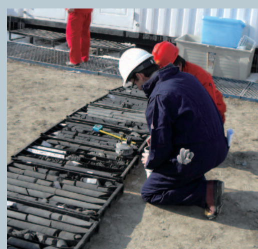
Multi-Pronged Upstream Resource Strategy

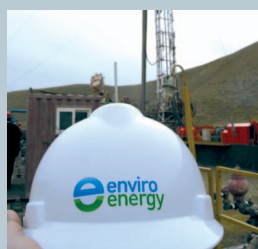
- **Hydrocarbons – natural gas, petroleum, coal**
- **Specialised industrial minerals**
- **High-value precious and base metals**

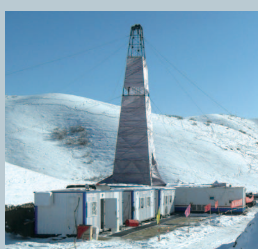
Enviro Energy is a rapidly growing upstream resource company currently focusing on unconventional natural gas development and petroleum production. The Company is listed on the Hong Kong Stock Exchange with access to global financial markets and is strategically positioned to build shareholder value through superior resource asset investments in the Asia Pacific region. The world-class management and advisory team aim to generate shareholder value by continuing expansion of the asset portfolio.

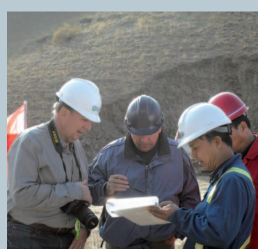
Strong Base – Expanding Horizons

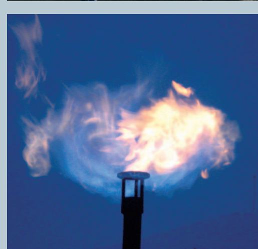
Enviro Energy has established a significant base of resources at upstream hydrocarbon projects in China. The resource base at the Company's unconventional natural gas project continued to grow year-over-year and development is now on the horizon. As Enviro Energy considers next steps toward commercialisation at its base project, the leadership team has been evaluating significant new opportunities in other commodities in order to maintain the relentless pursuit of profitable growth.

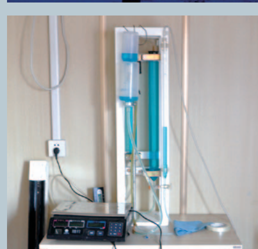












Chairman's Statement

Dear Shareholders,

I take pleasure in presenting the results for Enviro Energy International Holdings Limited ("**Company**" or "**EE**" and together with its subsidiaries and jointly-controlled entity, "**Group**") for the year ended 31 December 2011.

The global environment in which we work and invest offers a broad mix of challenges and opportunities. The near term recovery is cautioned by the concerns over sovereign debt in western part of Europe and the uncertain impact that has on financial markets.

2011 was a year where major economies of the world continued their climb out of the recession of the previous period and positive signs continued to abound in the Asia Pacific region and in particular in the People's Republic of China ("**China**" or "**PRC**") where growth continued to outpace the Organisation for Economic Cooperation and Development (OECD) countries. EE continued to focus on projects in China and overall results for the year were positive.

Our long term outlook for energy however remains robust.

EE has as its business objective to help meet the world's growing energy needs with a commitment to innovation, technology and sound investment strategy. We continue to balance risk and value creation by utilising a consistent business model underpinned by strategic principles that guide all our activities with the aim of growing long term shareholder value.

We consistently apply strategic principles to our investments and operations in the key segments of our business: conventional petroleum and unconventional natural gas. The five cornerstone strategic principles remain:

I. Disciplined investment;

II. Emphasis on shareholder value;

III. Portfolio optimisation;

IV. Resource and reserve growth; and

V. Research and development.

Chairman's Statement

The growth of EE's discovered and gross coalbed methane ("**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. Over the past year, our unconventional natural gas resource base grew to exceed 10 trillion cubic feet ("**Tcf**") following significant growth in the previous year. Our discovered CBM resource area in Xinjiang Uygur Autonomous Region ("**Xinjiang**") in western China is ready for the move ahead to an expanded development area and future development planning.

Modern economies would not function without energy and we foresee world energy demand continuing to expand, driven by population growth and increasing prosperity across various regions. New global investments in energy supply and infrastructure are required and we expect them to continue at a robust rate.

Global advances in energy development and the rapid increase in development of unconventional resources reflects the wisdom of EE's strategic principles and business model and the emphasis on unconventional natural gas. Certainly it demonstrates the exceptional value potential of our large-scale natural gas project located in western China where the known resource base and operating infrastructure continue to expand.

Capital markets are showing continuing interest in and support for the types of projects fostered by EE although certain developments especially in European sovereign debt affect financial markets and increase the concerns about unpredictable events and changes. I continue to foresee great investment opportunities over the next five years not only in upstream hydrocarbons but in other natural resource commodities as well. Demand for a range of commodities is growing in pace with economic growth across Asia Pacific.

I wish to reconfirm my confidence and reliance on the talented, dedicated team of EE professionals who continue to drive our success through their ingenuity and high standards. I also express my appreciation to our valued service and financial partners and business associates as well as you the shareholder for the encouraging support.

EE continues to look beyond today's circumstances to focus on the long term and opportunities that will ensure we meet the ambitious targets for value creation and profit for shareholders.

CHAN Wing Him Kenny
Chairman and Chief Executive Officer
Hong Kong, 29 March 2012

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 the full range of energy-related projects involving conventional oil, unconventional natural gas, state-of-the-art oil and gas related environmental technologies and other high return natural resource projects.

Business review

Unconventional natural gas business

As at the date hereof, the Company held approximately 71.61% of the current issued common shares and preferred shares in the capital of TerraWest Energy Corp. ("**TWE**"), or approximately 82.92% of the issued common shares, preferred shares and warrants outstanding in the capital of TWE on a fully diluted basis, respectively. TWE and China National Petroleum Corporation ("**CNPC**") hold an interest of 47% and 53%, respectively, in a production sharing contract dated 30 December 2005 ("**PSC**"), which is located in Xinjiang. The PSC is now administered by PetroChina Coalbed Methane Company Ltd., an indirect subsidiary of CNPC.

Under the terms of the PSC, TWE has the right to explore for, develop, produce and sell CBM or liquid hydrocarbons extracted from CBM. CBM is defined in the PSC as gas stored in certain named geological formations of Jurassic age to a depth of 1,500 metres.

During the year TWE continued and completed pilot well testing at locations where drilling was completed in 2010. The testing produced water and CBM and was concluded by April 2011. TWE initiated new 2011 work by completing a design for a specialised fracture stimulation (frac job) of well LHG10-02. This frac job was designed as a pressurised nitrogen ("**Ni**") injection of target zones in the well. Significant mineralogical evaluation of the well logs and previous core samples from nearby well LHG09-01 were combined with deep analysis of the gas bearing zones. Eighteen (18) Ni injection targets were identified in the very prospective well.

Significant work was undertaken to identify services, suppliers and evaluate costs for the frac job and all the data was combined into a frac job plan.

Additionally, the project team completed a design template for lateral pilot production wells potentially to be drilled in the thick Xishanyao (J2X) coal seams.

TWE holds the first fully-approved CBM PSC in Xinjiang which is considered to be among the most attractive CBM exploration areas in the world based on known coal resources and regional economic development plans of the central government of China. The 2011 program continued the first CBM pilot production testing under a production sharing contract in western China.

In October 2011, TWE announced a significant milestone in its development with the results of an independent engineering report ("**NSAI Report**") prepared by Netherland, Sewell & Associates, Inc. ("**NSAI**") updating estimates for the total Undiscovered Original Gas-in-Place ("**OGIP**") in the Liuhuanggou CBM PSC area situated in Xinjiang. The 2011 figures are in addition to the OGIP and discovered CBM (Contingent Resources) estimated by an independent third party in 2010 for another portion of the PSC ("**TWE's discovered CBM area**"). NSAI has completed an assessment of all natural gas resources within the Liuhuanggou PSC area additional to discovered CBM resources reported in a previously evaluated area. The updating NSAI Report covers the Xishanyao (J2X) and Badaowan (J1B) target coal seams outside TWE's discovered CBM area as well as other prospective zones in these formations within the Liuhuanggou PSC on a 100% (gross) basis and concludes with OGIP estimates for the Liuhuanggou PSC as follows:

- Grand total Best Estimate OGIP of 11.825 Tcf of natural gas; and
- Grand total OGIP Low Estimate of 7.179 Tcf; and a High Estimate of 19.185 Tcf.

The major portion of the estimated values is contained in shale intervals of varying thickness which surround and underlie coal seams within the target formations which cover a significant area of the PSC. This underscores the great potential and significant merit of the area as an exploration and development target.

The results of the 2011 resource evaluation provide a significant increase in TWE's independently evaluated resource potential at Liuhuanggou and represent a major milestone and a next step in unlocking substantial value as TWE moves forward to commercialise its natural gas position. Previously EE had indications that CBM resources as defined in the PSC greatly exceed the potential resources in coal seams alone. Such indications now prove to be true and the Jurassic formations within the Liuhuanggou PSC area are seen to be potentially prolific, based on the prospective resource estimates.

*The Kala-1 exploration well drilled by Xinjiang Oilfield Company of PetroChina ("**Xinjiang Oilfield**")*

TWE geologists sampled prospective Badaowan (J1B) formation rocks intersected in its deep exploration well drilled beyond 1,500 metres depth within the PSC area. Drilling of the well continued into 2011 and the sampling was completed as planned with all samples sent for analysis at labs in the PRC. TWE assigned one geologist and utilised Xinjiang Oilfield technicians at the location which is on the Kazhala anticline structure in the northwest of the PSC. TWE's geologists will also review mud logs and geophysical logs as part of the cooperation.

Samples of the target Badaowan (J1B) formation and overlying formations were analysed at selected laboratories after gas desorption testing. A number of interesting hydrocarbon shows were identified which reconfirm the potential of the Badaowan (J1B) formation as a CBM reservoir.

The Company was pleased to participate in the arrangement between the two parties as it reflected a high degree of co-operation and the joint interest in the scientific data on the energy resource base of the southern Junggar Basin as well as the economic potential of the region.

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 the Company, China United Coalbed Methane Corporation Limited ("**CUCBM**") and Petromin Resources Ltd. ("**Petromin**") concluded the initial phase during 2011. The initial phase of the JV Project was a single-well pilot project that involved 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 the Company and Petromin each holds a 20% participating interest.

The JV Project is located in CUCBM's Shizhuang North block in the Qinshui Basin of Shanxi Province, the PRC. The Qinshui Basin is one of the more prolific CBM producing regions in the PRC and the coal seams in the basin are prospective for ECBM production.

During 2011, the parties completed reports on the results of initial phase operations during which CO_2 was successfully injected and ECBM produced. The reports have been submitted to the sponsoring government bodies in China and Canada and are being reviewed by all the parties. Initial planning considerations for a second phase were discussed during the year and the Company is providing specialised advisory services during the consultative stage. China National Offshore Oil Corporation (CNOOC) has taken a 50% ownership stake in CUCBM and the change in ownership is expected to positively influence the development strategy of CUCBM going forward. Going forward, the Group will assess the cost/benefit of maintaining or altering its stake in the JV Project.

A number of synergistic project opportunities that have potential to add value to the Group's investment portfolio were reviewed during the year. The Group remains alert to any new possibilities to utilise its specialised expertise in enhanced hydrocarbon recovery utilising CO_2 and maintains business development activities with potential users of the technology as well as suppliers of CO_2 which may have similar business objectives.

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 of Hong Kong Limited ("**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 2011, the crude oil price in the PRC continued to maintain at a level ranging between approximately US$91 to US$115 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 at slightly over 100,000 barrels, representing a daily production of approximately 277 barrels.

Business prospects

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. The PRC is considered one of the world's largest and fastest growing consumer markets for natural gas and also holds the largest estimated unconventional natural gas resources in the world. Forecast demand for natural gas outstrips supply in the PRC by a wide margin and the development opportunities for CBM and other unconventional natural gas resources are highly sought after.

The central government of the PRC actively promotes the exploration and development of unconventional natural gas and conducted the first ever auction for shale gas exploration blocks during 2011. Further auctions are expected in 2012 with both domestic and foreign companies participating.

TWE holds the first CBM PSC in the Junggar Basin of Xinjiang and the PSC defines CBM as all gas contained in four named formations to a depth of 1,500 metres. This provides excellent scope for exploitation of gas in shale formations with the PSC if the shale is within the referenced geologic formations. Within the PRC, the Junggar Basin is considered to be among the most prospective regions for CBM and other unconventional natural gas and is connected to the national natural gas pipeline grid of the PRC via both the national 1st and 2nd West-East pipelines. Other corporations attracted to the Junggar Basin include BP Plc and Dart Energy Limited (formerly Arrow Energy Limited) which are conducting joint studies or PSC exploration in the basin.

The Company anticipates continuing natural gas demand growth in PRC and is forecasting a growth rate of 10% per annum. Gas prices are also expected to continue to grow from current wellhead price levels equivalent to US$4.50 to US$6.50/thousand cubic feet ("**mcf**"). The central government of the PRC also provides a price subsidy equivalent to over US$1.00/mcf to CBM sales price.

Many of the world's new liquefied natural gas ("**LNG**") projects aim to deliver natural gas to the PRC. With the massive new shale gas discoveries in North America, new Canadian and US LNG export projects are being promoted. In Australia, the CBM-based LNG export concept is essentially a China gas demand story. These new projects will have to compete with each other to sell their gas and promote the projects timely development. The Company remains confident that having a natural gas project within the PRC offers a significant strategic and competitive advantage to the Group.

China's 12th Five Year Plan ("**Plan**") was announced in July 2011. The Plan as expected, focuses strongly on natural gas and highlights incentives to explore for and develop unconventional natural gas including CBM and shale gas. The Plan also encourages investments in frontier areas such as Xinjiang with the objective of increasing and expanding energy and transportation infrastructure. The initiative will increase energy demand in Xinjiang, including demand for natural gas.

Global economy, crude oil price and outlook

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

The world continues to recover from the 2008–2009 global recession although the recovery is uneven. In developed economies, the recovery has been slower than anticipated and slower in comparison with recoveries from past recessions. As a result, unemployment is still high in several countries including the United States, and market growth remains weak. National debt levels in a number of small economies of the European Union, namely Greece, Ireland and Portugal, drew attention throughout the year and concerns over sovereign debt default were high. Defaults were avoided but markets remain nervous about future prospects for recurrence and about fiscal sustainability and financial turbulence.

In contrast, growth remains high in many emerging economies including India and China, driven by strong capital inflows and high commodity prices and firm demand for manufactured goods.

The pace and timing of the global economic recovery means uncertainty for the energy outlook and prices. Oil prices rose in 2011 as a result of growing demand associated with signs of economic recovery and a lack of a sufficient supply response. Prices were driven even higher in 2011 as social and political unrest unfolded in several Middle Eastern and African economies.

Oil prices increased from about US$82 per barrel at the end of 2010 to more than US$112 per barrel in fourth quarter of 2011. The impacts of quickly rising prices and possible regional supply disruptions add substantial uncertainty to the outlook. In 2011, the price of light sweet crude oil in the United States averaged approximately US$100 per barrel. Prices are expected to continue increasing in the near term and the Company expects oil to remain above US$100 per barrel in 2012.

The Group continues to interpret the global and regional situation in petroleum as supporting its continued involvement in the upstream petroleum business in China and the Group continually assesses opportunities for increased shareholder value from current operations.

Other natural resource: opportunities & markets

As noted in the economic review, the Asian economies remain among the strongest in the world in terms of sustained growth. Such economic growth fuels strong and continuing demand for resource commodities across a broad spectrum. The Company takes special note of the opportunities to generate cash and create value in niche resource markets including some specialised industrial minerals, coal and oilfield service commodities. The energy boom in Asia and the worldwide increase in unconventional hydrocarbon development, including shale gas and shale oil have created great demand for some specialised products.

China's housing boom forms the basis for incredible new demand for a range of industrial mineral products.

Otherwise, the demand for coal and prices based on for growth in electricity generation maintain the attractiveness of high quality coal projects located near transportation infrastructure. The tsunami and nuclear plant disaster in Japan has led to increased coal and natural gas demand there as the nuclear option is reviewed by the government. The Company remains opportunistic and aggressive in reviewing potential new investments in natural resources throughout Southeast Asia.

Financial Review

Oil and gas segment

Unconventional natural gas business

During the year ended 31 December 2011, EE's unconventional natural gas businesses were still in exploration and evaluation phases.

During the year ended 31 December 2011, the capital expenditure incurred for EE's unconventional natural gas businesses amounted to approximately HK$21.0 million. TWE continued production testing on the pilot production wells drilled in 2010 and continued to plan for the drilling of more pilot production wells. As disclosed previously, once the results of the pilot production are available, 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. TWE's plan is to follow the pilot CBM production with the development of a 30 wells CBM production project. The project would represent the initial stage of a larger commercial development.

Conventional crude oil business

During the year ended 31 December 2011, the crude oil price in China continued to maintain at a level ranging between approximately US$91 to US$115 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 101,000 barrels (2010: 114,000 barrels), representing a daily production of approximately 277 barrels (2010: 312 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 2011, after taking into account depreciation and tax considerations, amounted to approximately HK$1.2 million (2010: HK$1.0 million).

Information technology ("IT") and network infrastructure segment

During the year ended 31 December 2011, EE continued to focus its resources on energy-related business. The Group's revenue generated from IT related businesses for the year ended 31 December 2011 amounted to approximately HK$0.2 million (2010: HK$0.4 million).

Administrative and operating expenses

For the year ended 31 December 2011, administrative and operating expenses amounted to approximately HK$77.7 million (for the year ended 31 December 2010: HK$99.2 million), representing a decrease of approximately 21.7%. The decrease was mainly due to (i) the decrease in consultancy fees paid to consultants; and (ii) the decrease of provision for the amount due from Qian An.

During the year ended 31 December 2011, share-based payment expenses amounted to HK$4.4 million (2010: HK$5.8 million) in relation to share options granted to employees of the Group was charged to the consolidated income statement. The share-based payment expenses in relation to share options granted to non-employees amounted to HK$26.3 million, of which HK$19.4 million (2010: HK$15.0 million) was recorded as investor relations expenses and HK$6.9 million (2010: HK$3.3 million) 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 2011, exchange differences mainly arising on translation of the Canadian operation amounted to approximately HK$20.6 million (2010: HK$42.9 million) because the Canadian dollar ("**C$**") decreased by approximately 2.1% 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 2011 amounted to approximately HK$76.7 million (for the year ended 31 December 2010: HK$97.1 million).

Liquidity And Financial Resources

For the year ended 31 December 2011, 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 2011, the Group had bank balances and cash of approximately HK$48.9 million (as at 31 December 2010: HK$155.8 million). The Group's current ratio stood at approximately 1.9 as at 31 December 2011 (as at 31 December 2010: 3.4).

On 9 May 2011, EE issued 230,000,000 non-listed warrants which entitle the warrant subscribers to subscribe for new shares of the Company at the warrant subscription price of HK$0.38 per new share for a period of twenty-four (24) months commencing from the date of issue of the warrants. Upon full exercise of the warrants, EE would be able to raise net proceeds of approximately HK$87.4 million. Details regarding the warrants have been disclosed in the Company's announcement dated 9 May 2011.

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 2011, the Group had net assets of approximately HK$914.4 million (as at 31 December 2010: HK$981.6 million).

As at 31 December 2011, the Group continued to maintain a debt-free capital structure.

As at 31 December 2011, 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 2010: Nil).

Charge on Group Assets

As at 31 December 2011, the Group did not have any charge on its assets (as at 31 December 2010: Nil).

Foreign Exchange Exposure

EE mainly earned revenue and incurred costs in HK$, Renminbi, C$ and US$. 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.

Capital Commitments

As at 31 December 2011, the Group had capital commitments amounting to approximately HK$17.9 million (as at 31 December 2010: HK$9.2 million).

Contingent Liabilities

As at 31 December 2011, the Group had no contingent liabilities (as at 31 December 2010: Nil).

Significant Investments and Future Plans for Material Investments

On 7 July 2011, CCST Singapore Pte. Ltd. ("**CCST**"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding with an independent third party in respect of, among other things, the potential investment in a company which is engaged in, among others, resources business in Southeast Asia. Pursuant to the memorandum of understanding, CCST paid the independent third party a refundable deposit of US$2.5 million and the parties agreed to set up working groups, conduct due diligence work and other necessary work for the purpose of finalising the potential investment. On 30 December 2011, the parties further entered into a supplemental agreement to extend the closing date to 31 March 2012 or such other date as the parties shall mutually agree.

The Group will continue to explore new opportunities in resource-related projects and to look for potential investments in the PRC and overseas.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

On 25 July 2010, Aces Diamond International Limited ("**Aces Diamond**"), a wholly-owned subsidiary of the Company, 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 based on the then exchange rate). On 1 April 2011, Aces Diamond completed the remaining part of the Subscription and the Group's controlling interests in TWE increased to approximately 71.61% of the then issued common shares and preferred shares in the capital of TWE or approximately 82.36% 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$49.3 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**").

Employees' Information

As at 31 December 2011, the Group had 25 full-time employees (as at 31 December 2010: 21) 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 14 to the Listing Rules throughout the year ended 31 December 2011, 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 17 December 2010, the Company adopted a new code of conduct regarding directors' securities transactions ("**Model Code**") based on the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry with all Directors, the Directors have complied with the Model Code throughout the year ended 31 December 2011.

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 19 to 22 of this report.

The Board meets regularly and at least twice a year. The Board held four meetings during the year ended 31 December 2011. The attendance of individual Directors at Board and Board committee meetings during 2011 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	4/4	—	1/1
Arthur Ross Gorrell	4/4	—	—
Independent Non-executive Directors			
David Tsoi	4/4	2/2	—
Lo Chi Kit	4/4	2/2	1/1
Tam Hang Chuen	4/4	2/2	1/1

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 2011, 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.

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.

Board of directors *(Continued)*

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 2011, the Board at all times met the requirements of 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

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 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 did not set up a nomination committee in accordance with recommended best practices under the CG Code for the year ended 31 December 2011. 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 2011, the independent auditors provided the following audit and permissible non-audit services to the Company:

	2011 **HK$'000**	2010 HK$'000
Audit for current year	**1,450**	1,580
Under-provision in prior year	**165**	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 websites of the Stock Exchange and the Company, respectively. All committees are provided with sufficient resources to discharge their duties. On 29 March 2012, 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. On 29 March 2012, the terms of reference of the Remuneration 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.

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.

The International Advisory Board contributes 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 2011, the Audit Committee met twice in reviewing the 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 14 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

During the year ended 31 December 2011 and up to 28 March 2012, the Remuneration Committee comprised 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. In compliance with Rule 3.25 of the Listing Rules, on 29 March 2012, Mr. Lo Chi Kit has been re-designated as the chairman, and Mr. Chan Wing Him Kenny has been re-designated as a member, of the Remuneration Committee. 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 managements' remuneration proposals with reference to the Board's corporate goals and objectives.

A meeting of the Remuneration Committee had been held during the year ended 31 December 2011 for reviewing and approving the year-end bonus for 2011 for the Directors. 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 meeting is set out on page 14 of this report.

Certain Directors and employees were granted bonus and/or share options under the 2011 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 2011. 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 2011 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 2011.

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 2011, an annual general meeting was held on 12 May 2011. All resolutions put to shareholders at this meeting 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 61, is an executive Director, and the Chairman and CEO of the Company since 29 November 2006 and the chairman and a member of the Management Committee. Mr. Chan has been re-designated as a member of the Remuneration Committee since 29 March 2012.

As the CEO, Mr. Chan is responsible for the Company's overall strategy and execution of business plans. Mr. Chan has over 31 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 66, 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 41 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 64, 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 the Growth Enterprise Market ("**GEM**") of the Stock Exchange) and CSR Corporation Limited (which shares are listed on the Main Board of the Stock Exchange). 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 and the Certified General Accountants Association of Canada.

Mr. LO Chi Kit, aged 51, has joined the Company as an independent non-executive Director since 20 December 2006. Mr. Lo is also a member of the Audit Committee. He has been re-designated as the chairman and a member of the Remuneration Committee since 29 March 2012. 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 56, 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 24 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 69, 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 16 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 64, 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, new business development and project management of hydrocarbons-related activities of the Group including CBM. Mr. Downing has 41 years of experience in geology, executive management, international commodity marketing and consulting for the global energy and resource industries.

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.

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. WONG Sum Lok Sam, aged 62, was appointed as Senior Vice President of CCST Singapore Pte. Ltd., a wholly-owned subsidiary of the Company, on 10 September 2011. Mr. Wong is mainly responsible for leading the evaluation of unconventional energy resource development and production technologies as well as advancing a broader project scope of investment in both conventional and unconventional resources within the Group. Mr. Wong has over 30 years experience in process development, and research and development in conventional and unconventional resource development. Over the past 15 years, Mr. Wong has had a strong focus on carbon capture and storage technologies in various projects in Canada and globally. He also has extensive energy project experience in China.

Previously Mr. Wong was Project Manager with the Carbon and Energy Management unit of Alberta Innovates Technology Futures and its predecessor organisation, Alberta Research Council.

Mr. Wong received his Bachelor of Science and Master of Science degrees in mechanical engineering from the University of Alberta, Canada. He is a professional engineer with the Association of Professional Engineers, Geologists, and Geophysicists of Alberta, Canada (APEGGA) and member of the International Association of Energy Economics.

Mr. CHAN Wan Tsun Adrian Alan, aged 33, 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 11 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.

In addition, Mr. Chan has been appointed as an independent non-executive director of Baoxin Auto Group Limited (which shares are listed on the Main Board of the Stock Exchange) since November 2011.

Directors, International Advisory Board and Senior Management Profile

Ms. MOK Kam Sheung, aged 52, 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 15 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 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 70, 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 (中原油田採油技術研究院) 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 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 (國家科學獎) in 1978, National Invention Award (國家發明獎) in 1980, National Scientific Progress Award (國家科學進步獎) in 1992 and National Scientific Achievement Award (國家科學成就獎) 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 2011.

Principal activities

The principal activity of the Company is investment holding and the activities of its principal subsidiaries and a 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 2011.

The results of the Group for the year ended 31 December 2011 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 2011 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 2011 are set out in note 30 to the consolidated financial statements.

Reserves

As at 31 December 2011, 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$76.6 million in aggregate as at 31 December 2011, 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 2011 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 2011, sales to the Group's five largest customers accounted for approximately 100% of the Group's total sales and sales to the largest customer included therein accounted for approximately 75.4%.

During the year ended 31 December 2011, purchases from the Group's five largest suppliers accounted for 100% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 62.8%.

Save as disclosed above, during the year ended 31 December 2011, 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 2011 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. Chan Wing Him Kenny and Mr. Tam Hang Chuen 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 19 to 22 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 27 June 2011 for an initial fixed term of three years commencing from 30 November 2009 and 2 June 2011, 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 2011.

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

As at 31 December 2011, 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	1,188,680,000 (Note 1)	—	1,188,680,000	
	Beneficial owner	Personal interest	8,834,000	28,847,200 (Note 2)	37,681,200	
			1,197,514,000	28,847,200	1,226,361,200	44.15%
Arthur Ross Gorrell	Beneficial owner	Personal interest	2,625,000	5,200,000 (Note 2)	7,825,000	0.28%
David Tsoi	Beneficial owner	Personal interest	—	1,150,000 (Note 2)	1,150,000	0.04%
Lo Chi Kit	Beneficial owner	Personal interest	—	800,000 (Note 2)	800,000	0.03%
Tam Hang Chuen	Beneficial owner	Personal interest	1,000,000	300,000 (Note 2)	1,300,000	0.05%

Notes:

1. 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 1,188,680,000 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 (3) 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.

2. Total number of shares to be allotted and issued upon exercise in full of share options granted under the 2003 Share Option Scheme and the 2011 Share Option Scheme (hereinafter defined).

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 2011, 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 2011, 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	1,188,680,000 (Note 1)	42.79%
	Short positions	Beneficially owned	200,000,000 (Note 2)	7.2%

Notes:

1. 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 1,188,680,000 shares held by Colpo. Mr. Chan Wing Him Kenny's indirect interests in 1,188,680,000 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".

2. 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 (3) 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 2011, 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 2003 Share Option Scheme, the 2011 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 adopted by the Company on 25 January 2003 ("2003 Share Option Scheme")

On 25 January 2003, the 2003 Share Option Scheme was approved pursuant to written resolutions of the Company. Details of movement of the options granted under the 2003 Share Option Scheme for the year ended 31 December 2011 were as follows:

Movement in the 2003 Share Option Scheme

Name or category of participants	Date of grant	Exercise period	Exercise price per share (HK$)	As at 1 January 2011	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2011
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)]
				35,947,200	–	–	–	35,947,200
Other employees								
In aggregate	19/06/2008	19/06/2010 to 19/06/2018	0.2316	8,850,000[(3)]	–	–	(500,000)[(3)]	8,350,000[(3)]
	15/06/2009	15/06/2011 to 15/06/2019	0.73	6,040,000[(3)]	–	(2,010,000)[(3)]	–	4,030,000[(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	13,260,000[(3)]	–	(6,030,000)[(3)]	–	7,230,000[(3)]
	09/07/2010	09/07/2012 to 08/07/2020	0.56	8,700,000[(4)]	–	(1,000,000)[(4)]	–	7,700,000[(4)]
				36,910,000	–	(9,040,000)	(500,000)	27,370,000

Name or category of participants	Date of grant	Exercise period	Exercise price per share (HK$)	As at 1 January 2011	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2011
Others								
In aggregate	20/03/2007	20/03/2007 to 24/01/2013	0.1125[(1)]	15,840,000[(1)]	—	—	—	15,840,000[(1)]
	26/04/2007	26/04/2007 to 24/01/2013	0.579[(2)]	1,000,000[(2)]	—	—	—	1,000,000[(2)]
	22/06/2007	22/06/2007 to 24/01/2013	1.365[(2)]	13,000,000[(2)]	—	—	—	13,000,000[(2)]
	29/10/2007	29/10/2007 to 24/01/2013	2.44	23,500,000	—	—	—	23,500,000
	19/06/2008	19/06/2010 to 19/06/2018	0.2316	500,000[(3)]	—	—	—	500,000[(3)]
	15/06/2009	15/06/2011 to 15/06/2019	0.73	20,000,000[(3)]	—	—	—	20,000,000[(3)]
	06/10/2009	06/10/2011 to 06/10/2019	0.75	350,000[(3)]	—	—	—	350,000[(3)]
	04/02/2010	04/02/2012 to 04/02/2020	0.514	50,250,000[(3)]	—	—	—	50,250,000[(3)]
	09/07/2010	09/07/2012 to 08/07/2020	0.56	61,850,000[(4)]	—	—	—	61,850,000[(4)]
				186,290,000	—	—	—	186,290,000
			Total:	259,147,200	—	(9,040,000)	(500,000)	249,607,200[(5)]
Weighted average exercise price per share (HK$)				0.73	—	0.57	0.23	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 (2) 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 (3) 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 (2) years from the date of grant and expiring on the date 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 (3) years from the date of grant and expiring on the date falling one day preceding the tenth anniversary from the date of grant.

(5) As at 31 December 2011, the Company had 249,607,200 (31 December 2010: 259,147,200) share options outstanding under the 2003 Share Option Scheme, which represented approximately 8.99% (31 December 2010: approximately 9.33%) of the Company's shares in issue on that date.

(2) Share option scheme adopted by the Company on 12 May 2011 ("2011 Share Option Scheme")

The Company adopted the 2011 Share Option Scheme which was approved by shareholders in the Company's annual general meeting held on 12 May 2011. Details of movement of the options granted under the 2011 Share Option Scheme for the year ended 31 December 2011 were as follows:

Movement in the 2011 Share Option Scheme

Name or category of participants	Date of grant	Exercise period	Exercise price per share (HK$)	As at 1 January 2011	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2011
Independent non-executive Directors								
David Tsoi	23/06/2011	23/06/2012 to 22/06/2021	0.435	–	150,000[(1)]	–	–	150,000[(1)]
Lo Chi Kit	23/06/2011	23/06/2012 to 22/06/2021	0.435	–	100,000[(1)]	–	–	100,000[(1)]
Tam Hang Chuen	23/06/2011	23/06/2012 to 22/06/2021	0.435	–	100,000[(1)]	–	–	100,000[(1)]
				–	350,000	–	–	350,000
Other employees								
In aggregate	23/06/2011	23/06/2012 to 22/06/2021	0.435	–	4,300,000[(1)]	(50,000)[(1)]	–	4,250,000[(1)]
				–	4,300,000	(50,000)	–	4,250,000
Others								
In aggregate	23/06/2011	23/06/2012 to 22/06/2021	0.435	–	45,350,000[(1)]	–	–	45,350,000[(1)]
				–	45,350,000	–	–	45,350,000
			Total:	–	50,000,000	(50,000)	–	49,950,000[(2)]
Weighted average exercise price per share (HK$)				–	0.435	0.435	–	0.435

Notes:

(1) 50% of the share options are exercisable in a period commencing one (1) year from the date of grant and expiring on the date 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 two (2) years from the date of grant and expiring on the date falling one day preceding the tenth anniversary from the date of grant.

(2) As at 31 December 2011, the Company had 49,950,000 (31 December 2010: Nil) share options outstanding under the 2011 Share Option Scheme, which represented approximately 1.80% (31 December 2010: Nil) of the Company's shares in issue on that date.

(3) During the year ended 31 December 2011, 50,000,000 share options were granted on 23 June 2011. The closing price of the Company's shares on the date of which the aforesaid share options were granted was HK$0.435.

(3) 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 2011, 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 2011 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 2011	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2011
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	9,350,000	–	(9,350,000)	–	–
			Total:	12,350,000	–	(12,350,000)	–	–

Details of the valuation of the share options granted during the year ended 31 December 2011 under the 2003 Share Option Scheme and the 2011 Share Option Scheme are set out in note 32 to the consolidated financial statements.

Competing business and conflicts of interest

During the year ended 31 December 2011, 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 2011, Mr. Chan Wing Him Kenny held 24,867 stock options entitling him to subscribe for 24,867 common shares (representing approximately 0.04% of the issued common share capital) in Petromin. Dr. Arthur Ross Gorrell held 2,230,193 common shares (representing approximately 3.83% of the issued common share capital) and 23,000 stock options entitling him to subscribe for 23,000 common shares (representing approximately 0.04% 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 2011, 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 of listing of the Company's shares from GEM to the Main Board of the Stock Exchange); (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 2011.

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 2011.

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 2011.

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, 29 March 2012

羅兵咸永道

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 34 to 83, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2012

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Consolidated Balance Sheet

	Notes	As at 31 December 2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	17	**2,616**	2,235
Oil and gas properties	18	**1,103,650**	1,107,078
Interest in a jointly-controlled entity	21	**3,683**	3,299
Available-for-sale investment	23	**529**	1,013
Club memberships		**2,700**	2,700
Deposit	25	**19,500**	—
		1,132,678	1,116,325
Current assets			
Trade receivables	24	**—**	112
Deposits, prepayments and other receivables	25	**2,095**	2,394
Financial asset at fair value through profit or loss	26	**1,874**	3,130
Bank balances and cash	27	**48,906**	155,800
		52,875	161,436
Total assets		**1,185,553**	1,277,761
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	30	**6,945**	6,944
Share premium and reserves		**676,901**	687,095
		683,846	694,039
Non-controlling interests		**230,592**	287,547
Total equity		**914,438**	981,586
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	29	**243,359**	249,083
Current liabilities			
Trade and other payables	28	**27,756**	47,092
Total liabilities		**271,115**	296,175
Total equity and liabilities		**1,185,553**	1,277,761
Net current assets		**25,119**	114,344
Total assets less current liabilities		**1,157,797**	1,230,669

Chan Wing Him Kenny
Director

Arthur Ross Gorrell
Director

The notes on pages 41 to 83 are an integral part of these financial statements.

Balance Sheet

	Notes	As at 31 December 2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	17	**873**	386
Investments in subsidiaries	19	**—**	—
Available-for-sale investment	23	**529**	1,013
		1,402	1,399
Current assets			
Amounts due from subsidiaries	20	**158,302**	110,833
Deposits, prepayments and other receivables	25	**1,112**	944
Bank balances and cash	27	**42,462**	137,107
		201,876	248,884
Total assets		**203,278**	250,283
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	30	**6,945**	6,944
Share premium and reserves	31	**193,761**	239,464
Total equity		**200,706**	246,408
LIABILITIES			
Current liabilities			
Trade and other payables		**2,572**	3,875
Total liabilities		**2,572**	3,875
Total equity and liabilities		**203,278**	250,283
Net current assets		**199,304**	245,009
Total assets less current liabilities		**200,706**	246,408

Chan Wing Him Kenny
Director

Arthur Ross Gorrell
Director

The notes on pages 41 to 83 are an integral part of these financial statements.

Consolidated Income Statement

	Notes	As at 31 December 2011 HK$'000	2010 HK$'000
Revenue	8	**164**	379
Cost of sales	10	**(123)**	(297)
Gross profit		**41**	82
Other loss, net	9	**(1,753)**	(3,177)
Administrative and operating expenses		**(77,711)**	(99,234)
Finance income	11	**456**	512
Share of profits less losses of a jointly-controlled entity	21	**1,205**	964
Loss before taxation	10	**(77,762)**	(100,853)
Income tax	13	**388**	4,618
Loss for the year		**(77,374)**	(96,235)
Attributable to:			
Equity holders of the Company		**(76,698)**	(97,144)
Non-controlling interests		**(676)**	909
		(77,374)	(96,235)
		HK Cents	HK Cents
Loss per share attributable to equity holders of the Company (expressed in HK cents per share)	16		
Basic and diluted		**(2.76)**	(3.86)
Dividend	14	**—**	—

The notes on pages 41 to 83 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Loss for the year	**(77,374)**	(96,235)
Other comprehensive (loss)/income		
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	**(20,638)**	42,933
Other comprehensive (loss)/income for the year, net of tax	**(20,638)**	45,103
Total comprehensive loss for the year	**(98,012)**	(51,132)
Attributable to:		
Equity holders of the Company	**(90,367)**	(66,893)
Non-controlling interests	**(7,645)**	15,761
Total comprehensive loss for the year	**(98,012)**	(51,132)

The notes on pages 41 to 83 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)(i))	—	—	—	—	—	—	27,332	—	27,332	(27,332)	—
Issue of new shares, net of issuance costs (Note 30(ii))	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 41 to 83 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$'000	Share options reserve HK$'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 2011	6,944	807,697	19,980	86,952	76,094	9,459	(313,087)	694,039	287,547	981,586
Comprehensive loss										
Loss for the year	–	–	–	–	–	–	(76,698)	(76,698)	(676)	(77,374)
Other comprehensive loss										
Exchange differences arising from translation of foreign operations	–	–	–	–	(13,669)	–	–	(13,669)	(6,969)	(20,638)
Total other comprehensive loss	–	–	–	–	(13,669)	–	–	(13,669)	(6,969)	(20,638)
Total comprehensive loss for the year	–	–	–	–	(13,669)	–	(76,698)	(90,367)	(7,645)	(98,012)
Transactions with shareholders										
Recognition of equity-settled share-based payments	–	–	–	30,725	–	–	–	30,725	–	30,725
Exercise of share options	1	184	–	(69)	–	–	–	116	–	116
Forfeiture of share options	–	–	–	(511)	–	–	511	–	–	–
Purchase of non-controlling interests (Note 34(b)(ii))	–	–	–	–	–	49,310	–	49,310	(49,310)	–
Issue of warrants	–	–	–	–	–	23	–	23	–	23
Total transactions with shareholders	1	184	–	30,145	–	49,333	511	80,174	(49,310)	30,864
As at 31 December 2011	6,945	807,881	19,980	117,097	62,425	58,792	(389,274)	683,846	230,592	914,438

The notes on pages 41 to 83 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Operating activities		
Loss before taxation	**(77,762)**	(100,853)
Adjustments for:		
Finance income	**(456)**	(512)
Depreciation of plant and equipment	**1,246**	1,576
Loss on disposal of plant and equipment	**104**	125
Provision for amount due from a jointly-controlled entity	**915**	20,359
Share of profits less losses of a jointly-controlled entity	**(1,205)**	(964)
Share-based payments	**30,725**	24,092
Fair value changes on financial asset at fair value through profit or loss	**1,256**	804
Impairment loss of available-for-sale investment	**484**	2,568
Operating cash flow before movements in working capital	**(44,693)**	(52,805)
Decrease/(increase) in trade receivables	**112**	(98)
Decrease/(increase) in deposits, prepayments and other receivables	**747**	(507)
(Decrease)/increase in trade and other payables	**(3,175)**	169
Net cash used in operating activities	**(47,009)**	(53,241)
Investing activities		
Addition to oil and gas properties	**(37,127)**	(23,620)
Purchase of plant and equipment	**(1,982)**	(564)
Proceeds from disposal of plant and equipment	**250**	160
Purchase of club memberships	**—**	(330)
Bank interest received	**8**	10
Dividend received	**—**	231
Increase in deposit	**(19,500)**	—
Net cash used in investing activities	**(58,351)**	(24,113)
Financing activities		
Proceeds from issue of ordinary shares, net of issuance costs	**—**	153,972
Proceeds from exercise of share options	**116**	—
Proceeds from issue of warrants	**23**	—
Net cash generated from financing activities	**139**	153,972
Net (decrease)/increase in bank balances and cash	**(105,221)**	76,618
Bank balances and cash at beginning of year	**155,800**	79,513
Exchange losses on bank balances and cash	**(1,673)**	(331)
Bank balances and cash at end of year	**48,906**	155,800

The notes on pages 41 to 83 are an integral part of these 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 are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). 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 2011, 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 29 March 2012.

2 Basis of preparation of financial statements

The consolidated financial statements of Enviro Energy International Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investment and financial asset 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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 Summary of significant accounting policies *(Continued)*

(a) Consolidation *(Continued)*

(i) Subsidiaries (Continued)

Business combinations

The Group applies the acquisition method 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 to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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 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.

(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.

3 Summary of significant accounting policies *(Continued)*

(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 the 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 consolidated 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 consolidated income statement within "Other loss, net" in the period in which they arise.

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as "other loss, net".

3 Summary of significant accounting policies *(Continued)*

(h) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

(i) Bank balances and cash

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

(j) Share capital and equity instruments

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.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issuance costs. Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as equity instruments ("other reserve"). The reserve will be transferred to the share capital and share premium accounts upon the exercise of the warrants.

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

The tax expense for the period comprises current and deferred tax. Tax is recognised in consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company subsidiaries and a jointly-controlled entity operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income 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 income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and a jointly-controlled entity, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

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 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.

(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.

3 Summary of significant accounting policies *(Continued)*

(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 consolidated income statement on a straight-line basis over the period of the lease.

(p) Foreign currency translation

(i) Functional and presentation currency

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 HK dollars, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "administrative and operating expenses". All other foreign exchange gains and losses are presented in the income statement within "administrative and operating expenses".

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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 other comprehensive income.

(iii) Group companies

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:

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

(b) 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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

3 Summary of significant accounting policies *(Continued)*

(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 using the effective interest method.

(r) Application of new and revised HKFRSs

(i) Amended standard adopted by the Group

The Group adopted HKAS 24 (revised), "Related party disclosures" on 1 January 2011.

The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose:

— the name of the government and the nature of their relationship; and

— the nature and amount of any individually-significant transactions; and

— the extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

The adoption of this amended standard did not have material impact on the Group's consolidated financial statements.

(ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group

HKAS 32 (Amendment)	Classification of rights issue
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a minimum funding requirement
HK(IFRIC)-Int 19 (Amendment)	Extinguishing financial liabilities with equity instruments

Improvements to existing standards

HKAS 1 (Amendment)	Presentation of financial statements
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKAS 34 (Amendment)	Interim financial reporting
HKFRS 3 (Amendment)	Business combinations
HKFRS 7 (Amendment)	Financial instruments: Disclosures
HK(IFRIC)-Int 13 (Amendment)	Customer loyalty programmes

3 Summary of significant accounting policies *(Continued)*

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

(iii) 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 adopted the following new and revised standards, amendments and interpretations that are relevant to the Group. These standards have been issued but are not yet effective:

HKAS 1 (Amendment)	Presentation of financial statements[3]
HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets[2]
HKAS 19 (2011)	Employee benefits[4]
HKAS 27 (2011)	Separate financial statements[4]
HKAS 28 (2011)	Investments in associates and joint ventures[4]
HKFRS 7 (Amendment)	Disclosure — Transfer of financial assets[1]
HKFRS 9	Financial instruments[5]
HKFRS 10	Consolidated financial statements[4]
HKFRS 11	Joint arrangements[4]
HKFRS 12	Disclosure of interest in other entities[4]
HKFRS 13	Fair value measurement[4]

Note:

(1) Effective for annual periods beginning on or after 1 July 2011

(2) Effective for annual periods beginning on or after 1 January 2012

(3) Effective for annual periods beginning on or after 1 July 2012

(4) Effective for annual periods beginning on or after 1 January 2013

(5) Effective for annual periods beginning on or after 1 January 2015

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 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(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 Critical 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 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 2010 and 31 December 2011:

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

(iv) 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; and

(v) There was a substantial increase in the gas resources as noted in an updated estimate prepared by an independent engineer for the area in which TWE has a right to explore coalbed methane and other gas resources.

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 2011 amounted to HK$683,846,000 (2010: HK$694,039,000)

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 risk management and financial instruments

(a) Financial risk factors

The Group's major financial instruments include available-for-sale investment, financial asset at fair value through profit or loss, 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 Group's management manages and monitors these exposures to ensure appropriate measures are implemented in 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	
	2011	2010
	HK$'000	HK$'000
Financial assets		
Bank balances and cash	**922**	851
Financial asset at fair value through profit or loss	**1,874**	3,130
Deposits and other receivables	**167**	514
	2,963	4,495
Financial liabilities		
Trade and other payables	**13,498**	25,781

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

At 31 December 2011, 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$1,333,000 (2010: HK$2,571,000) higher/lower and HK$280,000 (2010: HK$442,000) lower/higher respectively.

6 Financial risk management and financial instruments *(Continued)*

(a) Financial risk factors *(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 2011 would decrease/increase by approximately HK$441,000 (2010: approximately HK$1,516,000).

(iii) Other price risk

The Group and the Company are exposed to equity price risk through their 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.

(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.

6 Financial risk management and financial instruments *(Continued)*

(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 2011

	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	—	1,874	—	1,874
Available-for-sale investment	529	—	—	529

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

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.

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.

6 Financial risk management and financial instruments *(Continued)*

(c) Categories of financial instruments

	As at 31 December	
	2011	2010
	HK$'000	HK$'000
Financial assets		
Loans and receivables		
Trade receivables	**–**	112
Deposits and other receivables	**20,638**	1,773
Bank balances and cash	**48,906**	155,800
Financial asset at fair value through profit or loss	**1,874**	3,130
Available-for-sale investment	**529**	1,013
	71,947	161,828
Financial liabilities		
Trade and other payables	**27,512**	46,772

Except for financial asset 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 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 asset 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, finance income and income tax. There is no transaction between segments.

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 2011				
Segment revenue	164	–	–	164
Gross profit	41	–	–	41
Administrative and operating expenses	(1,809)	–	(2,065)	(3,874)
Share of profits less losses of a jointly-controlled entity	–	1,205	–	1,205
Income tax	–	–	388	388
Segment results	(1,768)	1,205	(1,677)	(2,240)
Unallocated:				
Other loss, net				(1,753)
Administrative and operating expenses				(73,837)
Finance income				456
Loss before taxation				(77,374)
Income tax				–
Loss for the year				(77,374)
As at 31 December 2011				
Segment assets	1,065	3,683	1,104,385	1,109,133
Unallocated assets				76,420
Total assets				1,185,553
Segment liabilities	489	–	246,757	247,246
Unallocated liabilities				23,869
Total liabilities				271,115

	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 2011					
Capital expenditures	6	–	20,966	1,976	22,948

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 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 a jointly-controlled entity	—	964	—	964
Income tax	—	—	4,618	4,618
Segment results	(1,355)	964	2,905	2,514
Unallocated:				
Other loss, net				(3,177)
Administrative and operating expenses				(96,084)
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	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 2010					
Capital expenditures	49	—	29,662	506	30,217

The Group's revenue for both the year ended 31 December 2011 and 2010 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 2011 and 2010 are further analysed as follows:

	As at 31 December	
	2011	2010
	HK$'000	HK$'000
Hong Kong (place of domicile)	**24,802**	4,915
China	**1,107,347**	1,110,397
	1,132,149	1,115,312

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	
	2011	2010
	HK$'000	HK$'000
Sale of computer software	**40**	284
Network infrastructure maintenance and sale of computer hardware	**124**	95
	164	379

9 Other loss, net

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Fair value loss on financial asset at fair value through profit or loss (Note 26)	**(1,256)**	(804)
Impairment loss of available-for-sale investment	**(484)**	(2,568)
Loss on disposal of plant and equipment	**(104)**	(125)
Others	**91**	320
	(1,753)	(3,177)

10 Loss before taxation

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

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Cost of inventories sold	**36**	232
Cost of services provided	**87**	65
Depreciation of plant and equipment	**1,246**	1,576
Auditor's remuneration		
— Current year	**1,450**	1,580
— Under-provision in prior year	**165**	798
— Audit-related services	**—**	281
Operating lease payments	**3,391**	3,729
Legal and professional fees	**876**	2,124
Investor relations expenses		
— Cash payments	**1,557**	8,135
— Share-based payments	**19,449**	15,037
Technical consultancy expenses		
— Share-based payments	**6,856**	3,287
Staff costs, including Directors' emoluments (Note 12)		
— Salaries, allowances and other benefits	**25,280**	19,893
— Retirement benefit scheme contributions	**152**	152
— Share-based payments	**4,420**	5,768
— Discretionary and performance related incentive payments	**5,549**	6,586
Provision for impairment of amount due from a jointly-controlled entity	**915**	20,359
Exchange (gain)/loss, net	**(955)**	99

11 Finance income

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Interest income from financial asset at fair value through profit or loss	**448**	502
Bank interest income	**8**	10
	456	512

12 Directors' and senior management's emoluments

Directors' emoluments for the year ended 31 December 2011 and 2010, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

For the year ended 31 December 2011	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	—	12,827	12	1,417	4,500	18,756
Dr. Arthur Ross Gorrell	—	192	—	314	35	541
Independent non-executive Directors						
Mr. David Tsoi	150	—	—	138	35	323
Mr. Lo Chi Kit	150	—	—	95	25	270
Mr. Tam Hang Chuen	150	—	—	35	25	210
Total	450	13,019	12	1,999	4,620	20,100

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

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 2011, 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 (2010: Nil).

For the year ended 31 December 2011, there was no arrangement under which the Directors waived or agreed to waive any emoluments (2010: Nil).

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

During the year ended 31 December 2011, one (2010: 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 (2010: four) individuals are as follows:

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and other benefits	**7,419**	6,726
Retirement benefit scheme contributions	**48**	37
Share-based payments	**3,421**	4,089
Discretionary and performance related incentive payments	**660**	700
	11,548	11,552

The emoluments were within the following bands:

	Number of employees Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
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	**—**	—
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	**1**	—
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,000,001 to HK$4,500,000	**1**	—
	4	4

During the year ended 31 December 2011, 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 (2010: 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 the payment of the British Virgin Islands income taxes.

No Hong Kong profits tax has been provided as the Group did not have any assessable profits in Hong Kong for the year ended 31 December 2011 (2010: Nil).

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 2011 (2010: Nil).

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Deferred income tax	**388**	4,618

13 Income tax *(Continued)*

The Company's non wholly-owned subsidiary, TWE, incorporated under the laws of British Columbia, Canada, has been reporting tax losses since its incorporation. 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).

The tax on the Group's loss before taxation differs from the theoretical amount that would arise using domestic income tax rate applicable to losses of the consolidated entities as follows:

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Loss before taxation	**(77,762)**	(100,853)
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	**12,831**	16,641
Effect of different tax rates of subsidiaries operating in other jurisdictions	**258**	353
Tax effect of:		
— income not subject to tax	**1**	1
— expenses not deductible for tax	**(11,864)**	(15,716)
— tax losses for which no deferred income tax asset was recognised	**(611)**	(615)
— expiry of tax losses previously recognised	**(227)**	—
— recognition of previously unrecognised tax losses	**—**	3,954
Income tax	**388**	4,618

The Group has unrecognised deferred tax assets from estimated tax losses of approximately HK$4,778,000 (2010: HK$4,385,000) 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$1,120,000 (2010: HK$719,000) 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$3,431,000 (2010: HK$3,700,000) that has no expiry date. During the year ended 31 December 2011, previously recognised tax losses amounting to approximately HK$227,000 (2010: Nil) has expired.

There is no tax impact relating to components of other comprehensive loss for the year ended 31 December 2011 (2010: Nil).

14 Dividend

No dividend was paid or proposed for the year ended 31 December 2011 (2010: 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$76,566,000 (2010: HK$79,716,000).

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 the year ended 31 December 2011 and 2010.

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 2011	2010
Loss attributable to equity holders of the Company for the purpose of basic loss per share (HK$'000)	**(76,698)**	(97,144)
Weighted average number of ordinary shares for the purpose of basic loss per share ('000)	**2,777,674**	2,516,206
Basic loss per share (in HK cents)	**(2.76)**	(3.86)

(b) The Group had share options and warrants outstanding as at 31 December 2010 and 31 December 2011. The share options and warrants did not have a dilutive effect on loss per share (2010: 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
At 1 January 2010						
Cost	1,160	952	525	183	3,556	6,376
Accumulated depreciation	(708)	(698)	(192)	(104)	(1,143)	(2,845)
Net book amount	452	254	333	79	2,413	3,531
Year ended 31 December 2010						
Opening net book amount	452	254	333	79	2,413	3,531
Exchange differences	—	1	—	—	—	1
Additions	—	100	—	—	464	564
Disposals	—	—	—	—	(285)	(285)
Depreciation charge	(418)	(144)	(99)	(29)	(886)	(1,576)
Closing net book amount	34	211	234	50	1,706	2,235
At 31 December 2010						
Cost	1,160	1,017	525	183	3,585	6,470
Accumulated depreciation	(1,126)	(806)	(291)	(133)	(1,879)	(4,235)
Net book amount	34	211	234	50	1,706	2,235
Year ended 31 December 2011						
Opening net book amount	34	211	234	50	1,706	2,235
Exchange differences	—	(1)	—	—	—	(1)
Additions	79	58	—	29	1,816	1,982
Disposals	—	—	—	—	(354)	(354)
Depreciation charge	(40)	(131)	(100)	(29)	(946)	(1,246)
Closing net book amount	**73**	**137**	**134**	**50**	**2,222**	**2,616**
At 31 December 2011						
Cost	1,239	1,075	526	212	4,946	7,998
Accumulated depreciation	(1,166)	(938)	(392)	(162)	(2,724)	(5,382)
Net book amount	**73**	**137**	**134**	**50**	**2,222**	**2,616**

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
At 1 January 2010						
Cost	1,020	130	423	40	462	2,075
Accumulated depreciation	(645)	(82)	(140)	(29)	(259)	(1,155)
Net book amount	375	48	283	11	203	920
Year ended 31 December 2010						
Opening net book amount	375	48	283	11	203	920
Additions	—	42	—	—	—	42
Depreciation charge	(341)	(33)	(83)	(3)	(116)	(576)
Closing net book amount	34	57	200	8	87	386
At 31 December 2010						
Cost	1,020	172	423	40	462	2,117
Accumulated depreciation	(986)	(115)	(223)	(32)	(375)	(1,731)
Net book amount	34	57	200	8	87	386
Year ended 31 December 2011						
Opening net book amount	34	57	200	8	87	386
Additions	79	33	—	24	625	761
Disposals	—	—	—	—	(39)	(39)
Depreciation charge	(40)	(34)	(80)	(7)	(74)	(235)
Closing net book amount	**73**	**56**	**120**	**25**	**599**	**873**
At 31 December 2011						
Cost	1,099	206	422	64	625	2,416
Accumulated depreciation	(1,026)	(150)	(302)	(39)	(26)	(1,543)
Net book amount	**73**	**56**	**120**	**25**	**599**	**873**

18 Oil and gas properties — Group

	Year ended 31 December 2011 HK$'000	2010 HK$'000
At cost		
At beginning of the year	**1,107,078**	1,022,216
Additions	**20,966**	29,653
Exchange differences	**(24,394)**	55,209
At end of the year	**1,103,650**	1,107,078

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, China United Coalbed Methane Corporation Ltd. ("CUCBM") and China National Petroleum Corporation ("CNPC") entered into a modification agreement dated 23 June 2011, pursuant to which, among others, CUCBM assigned all its rights and obligations under the CBM production sharing contract ("PSC") to CNPC.

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").

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 CNPC. 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 CNPC 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 CNPC, which will be adjusted according to their respective actual participating interests in the CBM fields.

The PSC is now administered by PetroChina Coalbed Methane Company Ltd., an indirect subsidiary of CNPC.

The PSC was executed on 30 December 2005 and came into force on 1 March 2006 after receiving approval of the Ministry of Commerce of the PRC ("MOC"). It 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 CNPC, pursuant to the PSC, to oversee the operations in the Contract Area.

The initial five-year exploration period for the block covered by the PSC expired on 28 February 2011 and required extension. As at 31 December 2011, the Company is in the process of discussing the terms of the extension with CNPC and has been advised by its PRC legal advisers that there is no material legal impediment in extending the exploration period of the PSC. The MOC may or may not approve the extension of the PSC; and CNPC or the MOC may require certain changes to the terms and conditions of the PSC by way of supplemental agreement in conjunction with their approval of any extension of the exploration period of the PSC.

Based on the continuous discussion with CNPC and the legal opinion obtained from the PRC legal advisers, the directors do not consider there to be any need for impairment of assets as a result of the expiration of the initial five-year exploration period under the PSC.

19 Investments in subsidiaries — Company

	As at 31 December 2011 HK$'000	2010 HK$'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 principal subsidiaries held by the Company as at 31 December 2011 are as follows:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital	Percentage of equity attributable to the Company		Principal activities and place of operation
			Direct	Indirect	
Allied Resources Limited	Hong Kong, limited liability company	1 Ordinary share of 1 HK dollar	100	—	Investment holding in Hong Kong
Rich Concept Technology Limited	BVI, limited liability company	10,000 Ordinary shares of 1 US dollar each	100	—	Investment 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 ("Chavis")	BVI, limited liability company	1 Ordinary share with no par value	—	100	Investment holding in Hong Kong
TerraWest Energy Corp.	British Columbia, Canada, limited liability company	324,333,334 Common shares with no par value 8,000,000 Preferred shares with no par value	—	71.61	CBM and natural gas exploration and development in the PRC
Sys Solutions Limited	Hong Kong, limited liability company	1,000,000 Ordinary shares of 1 HK dollar each	—	100	Provision of network infrastructure solutions and services in Hong Kong
Dragon Bounty Company Limited	BVI, limited liability company	1 Ordinary share of 1 US dollar	—	100	Investment holding in Hong Kong
CCST Singapore Pte. Ltd.	Singapore, limited liability company	10,000 Ordinary shares of 1 Singaporean dollar each	—	100	Environmental projects in South East Asia
Aces Diamond International Limited ("Aces Diamond")	BVI, limited liability company	1 Ordinary share of 1 US dollar	—	100	Investment holding in Hong Kong

\# Wholly-owned foreign enterprise established in the PRC.

19 Investments in subsidiaries — Company *(Continued)*

Common shares, preferred shares and warrants in TWE

TWE has 220,000,000 outstanding warrants as at 31 December 2011 (2010: 134,000,000 warrants) and 8,000,000 preferred shares (2010: 8,000,000 preferred shares). Assuming the full conversion of all outstanding warrants of TWE and preferred shares, the Group would hold approximately 82.92% (2010: 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 2011 '000	As at 31 December 2010 '000	**As at 31 December 2011 '000**	As at 31 December 2010 '000	**As at 31 December 2011 '000**	As at 31 December 2010 '000
Issued and outstanding:						
At the beginning of year						
Common shares and preferred shares with no par value	**261,334**	234,334	**8,000**	8,000	**134,000**	93,000
Issue of new shares and warrants (i), (ii)	**63,000**	27,000	**–**	–	**126,000**	54,000
Lapse of warrants (iii)	**–**	–	**–**	–	**(40,000)**	(13,000)
As at end of year	**324,334**	261,334	**8,000**	8,000	**220,000**	134,000
Number of common shares, preferred shares and warrants owned by the Group as at end of year	**238,000**	175,000	**–**	–	**220,000**	134,000

Notes:

(i) 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)(i)).

(ii) On 1 April 2011, the Company, through a wholly-owned subsidiary, subscribed for 63,000,000 common shares of TWE, 63,000,000 C warrants at an exercise price of CAD0.07 per common share of TWE and 63,000,000 D warrants at an exercise price of CAD0.10 per common share of TWE, for an aggregate subscription price of CAD3,150,000. 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)).

(iii) On 8 July 2010 and 18 February 2010, 12,000,000 and 1,000,000 warrants with an exercise price of CAD0.03 expired respectively. On 17 August 2011, 40,000,000 A warrants with an exercise price of CAD0.10 expired.

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	
	2011	2010	**2011**	2010
A Warrant	**–**	40,000	**–**	0.10
B Warrant	**40,000**	40,000	**0.15**	0.15
C Warrant	**90,000**	27,000	**0.07**	0.07
D Warrant	**90,000**	27,000	**0.10**	0.10
	220,000	134,000		

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 2011 and at the end of the year.

20 Amounts due from subsidiaries — Company

	As at 31 December	
	2011	2010
	HK$'000	HK$'000
Cost	**238,736**	181,572
Less: Provision for impairment	**(80,434)**	(70,739)
	158,302	110,833

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

21 Interest in a jointly-controlled entity — Group

	As at 31 December	
	2011	2010
	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	**(7,168)**	(7,552)
Less: Impairment losses recognised	**(287,550)**	(287,550)
	3,683	3,299

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

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.

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 2011 and 2010.

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	
	2011	2010
	HK$'000	HK$'000
Assets		
Non-current assets	**29,153**	31,565
Current assets	**9,340**	6,966
	38,493	38,531
Liabilities		
Current liabilities	**(34,457)**	(34,133)
Non-current liabilities	**(353)**	(1,099)
	(34,810)	(35,232)
Net assets	**3,683**	3,299

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Income	**42,718**	35,549
Expenses before impairment loss	**(41,513)**	(34,585)
Net income	**1,205**	964

As at 31 December 2011, 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 (2010: Nil).

22 Amount due from a jointly-controlled entity

	As at 31 December	
	2011	2010
	HK$'000	HK$'000
Amount due from a jointly-controlled entity	**21,963**	20,359
Less: Provision for impairment	**(21,963)**	(20,359)
	—	—

The Group carried out an assessment on the recoverability of amount due from a jointly-controlled entity as at 31 December 2010. In view of the fact that the amount had been outstanding for a prolonged period and the timing of the repayment remained uncertain, the Group had decided to make a full provision for such amount.

During the year ended 31 December 2011, the jointly-controlled entity has declared a dividend of approximately HK$915,000 to the Group. The Group has carried out an assessment on the recoverability of this dividend receivable as at 31 December 2011. In view of the fact that the timing of the distribution 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	
	2011	2010
	HK$'000	HK$'000
At beginning of the year	**1,013**	1,411
Fair value change	**(484)**	(398)
At end of the year	**529**	1,013

Available-for-sale investment comprises:

	As at 31 December	
	2011	2010
	HK$'000	HK$'000
Listed securities, reporting as non-current assets:		
— Equity securities — listed overseas	**529**	1,013

The equity securities represented approximately 3% (2010: 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	
	2011	2010
	HK$'000	HK$'000
Trade receivables	**–**	112

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	
	2011	2010
	HK$'000	HK$'000
Within 30 days	**–**	70
Between 31 — 60 days	**–**	3
Over 60 days	**–**	39
	–	112

As at 31 December 2010, trade receivables of HK$42,000 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	
	2011	2010
	HK$'000	HK$'000
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	
	2011	2010
	HK$'000	HK$'000
HK dollar	**–**	96
US dollar	**–**	16
	–	112

25 Deposits, prepayments and other receivables

	Group		Company	
	As at 31 December		As at 31 December	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Deposit (Note)	**19,500**	—	**—**	—
	19,500	—	**—**	—
Current				
Deposits	**551**	609	**360**	414
Prepayments	**957**	621	**562**	243
Other receivables	**587**	1,164	**190**	287
	2,095	2,394	**1,112**	944
Total deposits, prepayments and other receivables	**21,595**	2,394	**1,112**	944

Note: On 7 July 2011, CCST Singapore Pte. Ltd. ("CCST"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding with an independent third party in respect of, among other things, the potential investment in a company which is engaged in, among others, resources business in Southeast Asia. Pursuant to the memorandum of understanding, CCST paid the independent third party a refundable deposit of US$2.5 million and the parties agreed to set up working groups, conduct due diligence work and other necessary work for the purpose of finalising the potential investment. On 30 December 2011, the parties further entered into a supplemental agreement to extend the closing date to 31 March 2012 or such other date as the parties shall mutually agree.

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% (2010: 5.4%) of the outstanding ordinary shares of Petromin.

Change in fair value of financial asset through profit or loss amounted to HK$1,256,000 (2010: HK$804,000) was recorded in "Other loss, net" in the consolidated income statement.

27 Bank balances and cash

	Group		Company	
	As at 31 December		As at 31 December	
	2011	2010	**2011**	2010
	HK$ '000	HK$ '000	**HK$ '000**	HK$ '000
Cash at banks and in hand	**48,906**	155,800	**42,462**	137,107

28 Trade and other payables — Group

	As at 31 December	
	2011	2010
	HK$'000	HK$'000
Trade payables	**—**	17
Other payables	**23,917**	40,741
Accrued liabilities	**3,839**	6,334
	27,756	47,092

28 Trade and other payables — Group *(Continued)*

At 31 December 2011, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2011	2010
	HK$'000	HK$'000
Within 30 days	**–**	12
Between 31 — 60 days	**–**	5
	–	17

29 Deferred income tax

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	
	2011	2010
	HK$'000	HK$'000
At beginning of the year	**253,701**	240,941
Exchange differences	**(5,436)**	12,760
At end of the year	**248,265**	253,701

Deferred tax assets

	Tax losses Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
At beginning of the year	**4,618**	—
Exchange differences	**(100)**	—
Credited to consolidated income statement (Note 13)	**388**	4,618
At end of the year	**4,906**	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	
	2011	2010
	HK$'000	HK$'000
Deferred tax liabilities	**248,265**	253,701
Deferred tax assets	**(4,906)**	(4,618)
	243,359	249,083

30 Share capital

	Number of ordinary shares Year ended 31 December		Nominal value Year ended 31 December	
	2011	2010	**2011**	2010
	'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	**2,777,459**	2,431,961	**6,944**	6,080
Issue of new shares upon exercise of share options on 28 July 2011(i)	**500**	—	**1**	—
Issue of new shares (ii)	**—**	345,498	**—**	864
As at end of year Ordinary share of HK$0.0025 each	**2,777,959**	2,777,459	**6,945**	6,944

Notes:

(i) During the year ended 31 December 2011, the Company allotted and issued 500,000 shares of HK$0.0025 each in the share capital of the Company for cash at exercise prices of HK$0.2316 per share, as a result of the exercise of share options.

(ii) 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	Other 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
As at 1 January 2011	**807,697**	**871**	**—**	**86,952**	**—**	**(656,056)**	**239,464**
Comprehensive loss							
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(76,566)**	**(76,566)**
Total comprehensive loss	**—**	**—**	**—**	**—**	**—**	**(76,566)**	**(76,566)**
Transactions with shareholders							
Recognition of equity settled share-based payments	**—**	**—**	**—**	**30,725**	**—**	**—**	**30,725**
Exercise of share options	**184**	**—**	**—**	**(69)**	**—**	**—**	**115**
Issue of warrants (Note (i))	**—**	**—**	**—**	**—**	**23**	**—**	**23**
Forfeiture of share options	**—**	**—**	**—**	**(511)**	**—**	**511**	**—**
Total transactions with shareholders	**184**	**—**	**—**	**30,145**	**23**	**511**	**30,863**
As at 31 December 2011	**807,881**	**871**	**—**	**117,097**	**23**	**(732,111)**	**193,761**

Note:

(i) In May 2011, the Company has entered into an agreement with independent third parties whereby the Company agreed to issue and the Independent third parties agreed to subscribe for 230,000,000 of warrants at a subscription price of HK$0.38 per warrant. Each warrant carried the right to subscribe for one new share of the Company.

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 2011 are as follows:

	Weighted average exercise price (per share) HK$	Outstanding Options
As at 1 January 2010	0.95	117,502,200
Granted	0.54	143,630,000
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
As at 1 January 2011	**0.73**	**259,147,200**
Granted	**0.44**	**50,000,000**
Exercised	**0.23**	**(500,000)**
Lapsed/cancelled/forfeited	**0.57**	**(9,090,000)**
As at 31 December 2011	**0.68**	**299,557,200**
Exercisable as at 31 December 2011	**1.00**	**98,182,200**

Share options outstanding as at 31 December 2011 and 2010 have the following expiry dates and exercise prices:

Expiry date	Exercise price (per share) HK$	Outstanding options as at 31 December 2011
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**	**9,850,000**
14 June 2019 (Note 2)	**0.73**	**29,480,000**
5 October 2019 (Note 2)	**0.75**	**410,000**
3 February 2020 (Note 2)	**0.51**	**57,480,000**
8 July 2020 (Note 2)	**0.56**	**79,000,000**
22 June 2021 (Note 3)	**0.44**	**49,950,000**
		299,557,200

32 Share option schemes *(Continued)*

(a) *(Continued)*

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

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.

(3) Regarding the share options granted on 23 June 2011, 50% of which shall be exercised in a period commencing one year from the date of grant and expiring on the date falling one day preceding the tenth anniversary from the date of grant. The balance of 50% of the share options shall be exercised in a period commencing two years from the date of grant and expiring on the date falling one day preceding the tenth anniversary from the date of grant.

During the year ended 31 December 2011, share options for subscribing 50,000,000 shares of the Company were granted for a total consideration of HK$15. The aggregate share-based payment expense of HK$4,420,000 (2010: HK$5,768,000) in relation to stock options granted to employees of the Group was charged to the consolidated income statement. The share-based payment expense in relation to stock options granted to non-employees amounted to HK$26,305,000, of which HK$19,449,000 (2010: HK$15,037,000) was recorded as investor relations expenses and HK$6,856,000 (2010: HK$3,287,000) was recorded as technical consultancy expenses, in the consolidated income statement.

500,000 options were exercised during the year (2010: Nil). Options exercised in 2011 resulted in 500,000 shares being issued at a weighted average price of HK$0.23 each. The related weighted average share price at the time of exercise was HK$0.75 per share.

32 Share option schemes *(Continued)*

(b) The fair values of the share options granted during the year ended 31 December 2011 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
23 June 2011	Nil	52.3%	2.27%	HK$0.44

(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 date of grant of the options.

The fair value of the share options during the year ended 31 December 2011 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 2011 had a weighted average remaining contractual life of 6.60 years (2010: 7.10 years). The weighted average fair value of options granted during the period determined using the Binomial valuation model was HK$0.28 per option (2010: HK$0.38 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 2011, the Company had 299,557,200 (2010: 259,147,200) share options outstanding under the Share Option Scheme, which represented approximately 10.78% (2010: 9.33%) 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. During the year ended 31 December 2011, no share options were granted under the TWE Scheme (2010: 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 2011 were as follows:

	Exercise price (per share) CAD	Outstanding options
As at 1 January 2011	0.03	12,350,000
Lapsed	0.03	(12,350,000)
As at 31 December 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 2011 (2010: HK$152,000).

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 2011: (i) Mr. Chan Wing Him Kenny held 24,867 stock options entitling him to subscribe for 24,867 common shares (representing approximately 0.04% of the issued common share capital) in Petromin; (ii) Dr. Arthur Ross Gorrell held 2,230,193 common shares (representing approximately 3.83% of the issued common share capital) and 23,000 stock options entitling him to subscribe for 23,000 common shares (representing approximately 0.04% of the issued common share capital) in Petromin. Mr. Chan Wing Him Kenny is also the Co-Chairman of Petromin, while Dr. Arthur Ross Gorrell is the Co-Chairman, president and the chief executive officer of Petromin.

As at 31 December 2011, 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 2011).

The Group entered into the following material related party transactions with Petromin during the year ended 31 December 2011 and 2010.

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Reversal of consultancy fees paid/payable to Petromin (Note (ii))	**–**	(354)
Reimbursement of expenses paid by Petromin on behalf of the Group	**236**	238
Professional services income paid/payable by Petromin	**(40)**	(151)

(i) Co-operative agreement with Petromin and CUCBM

On 25 January 2008, the Company 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.

34 Related party transactions *(Continued)*

(a) Transactions with Petromin *(Continued)*

(i) *Co-operative agreement with Petromin and CUCBM* (Continued)

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 the project. On 10 March 2010, All Parties 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 2011, no legal entity has been formed pursuant to this Co-operation.

(ii) *Professional services and management agreement with Petromin*

On 1 January 2008, TWE 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.

In 2010, TWE and Petromin have 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.

(iii) 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.

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

(i) On 25 July 2010, Aces Diamond, a wholly-owned subsidiary of the Company, 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 CAD 4,500,000 (equivalent to HK$33,300,000, based on the then exchange rate).

On 25 July 2010, Aces Diamond completed the subscription 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.

34 Related party transactions *(Continued)*

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

(ii) On 1 April 2011, Aces Diamond completed the subscription for 63,000,000 ordinary shares, 63,000,000 C Warrants and 63,000,000 D Warrants of TWE for a consideration of CAD3,150,000 (equivalent to HK$25,200,000) pursuant to the above agreement mentioned in note 34(b)(i). After this subscription, the Group's controlling interests in TWE has increased from 64.98% to 71.61%. Assuming after this subscription, 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 74.25% to 82.92% of the issued common shares, preferred shares and warrants outstanding in the capital of TWE on a fully diluted basis as at 31 December 2011.

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$49,310,000 is recorded in equity in the year ended 31 December 2011.

(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	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and other benefits	**20,277**	15,966
Retirement benefit scheme contributions	**48**	49
Share-based payments	**5,126**	5,431
Discretionary and performance related incentive payments	**5,173**	6,235
	30,624	27,681

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	
	2011	2010
	HK$'000	HK$'000
Within one year	**1,871**	2,123
After one year but within five years	**1,055**	814
	2,926	2,937

Operating lease payments represent rentals payable by the Group for certain of its office properties for the lease term ranges from one to three years.

36 Capital commitment

	As at 31 December	
	2011	2010
	HK$'000	HK$'000
Other commitments authorised but not contracted for in respect of:		
— PSC (Note (i))	**17,940**	—
Other commitments contracted for but not provided in the consolidated financial statements in respect of:		
— PSC (Note (i))	**–**	8,105
— Co-operative Agreement (Note (ii))	**–**	1,089
	17,940	9,194

Notes:

(i) As at 31 December 2011, the Company is in the process of discussing the terms of the extension of the PSC of TWE with CNPC. The amount represented the minimum work commitment authorised by the board of TWE to be incurred before 31 December 2012.

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

(ii) As at 31 December 2011, the parties to the Co-operative Agreement were still in discussion on the details of the second phase. According to the Co-operative Agreement, an additional RMB15,000,000 (approximately HK$17,700,000) or more would be funded in the second phase, of which the capital contribution of each party has yet to be determined.

As at 31 December 2010, pursuant to the Co-operative 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. As at 31 December 2010, the commitment of the Company is approximately HK$1,089,000.

37 Contingent liabilities

As at 31 December 2011, the Group did not have any contingent liabilities (2010: Nil).

Five Years Financial Statement Summary

Consolidated Income Statement

	Year ended 31 December 2011 HK$'000	2010 HK$'000	2009 HK$'000	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Revenue	**164**	379	310	2,213	3,374
Cost of Sales	**(123)**	(297)	(246)	(1,818)	(2,865)
Gross profit	**41**	82	64	395	509
Other operating income	**—**	—	—	—	6,151
Discount on acquisition	**—**	—	—	367,973	—
Administrative and operating expenses	**(77,711)**	(99,234)	(44,095)	(163,936)	(52,634)
Share of profits less losses of:					
— Jointly-controlled entity before impairment loss	**1,205**	964	(3,279)	3,198	—
— Jointly-controlled entity's impairment loss	**—**	—	(59,748)	(227,802)	—
Other loss, net	**(1,753)**	(3,177)	(509)	—	—
Operating loss	**(78,218)**	(101,365)	(107,567)	(20,172)	(45,974)
Finance income	**456**	512	42	6,833	—
Loss before taxation	**(77,762)**	(100,853)	(107,525)	(13,339)	(45,974)
Income tax	**388**	4,618	—	—	—
Loss for the year/period	**(77,374)**	(96,235)	(107,525)	(13,339)	(45,974)
Non-controlling interests	**(676)**	909	(930)	(2,193)	—
Loss attributable to equity holders of the Company	**(76,698)**	(97,144)	(106,595)	(11,146)	(45,974)

Consolidated Balance Sheet

	As at 31 December 2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	As at 31 July 2007 HK$'000
Non-current assets	**1,132,678**	1,116,325	1,032,238	938,251	524
Current assets	**52,875**	161,436	104,247	153,415	489,859
Current liabilities	**(27,756)**	(47,092)	(40,890)	(44,065)	(7,237)
Non-current liabilities	**(243,359)**	(249,083)	(240,941)	(206,578)	—
Net assets	**914,438**	981,586	854,654	841,023	483,146