Annual Report

2012

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

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Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

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Core D, Cyberport 3
100 Cyberport Road
Hong Kong

Corporate Information

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
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

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Company Website

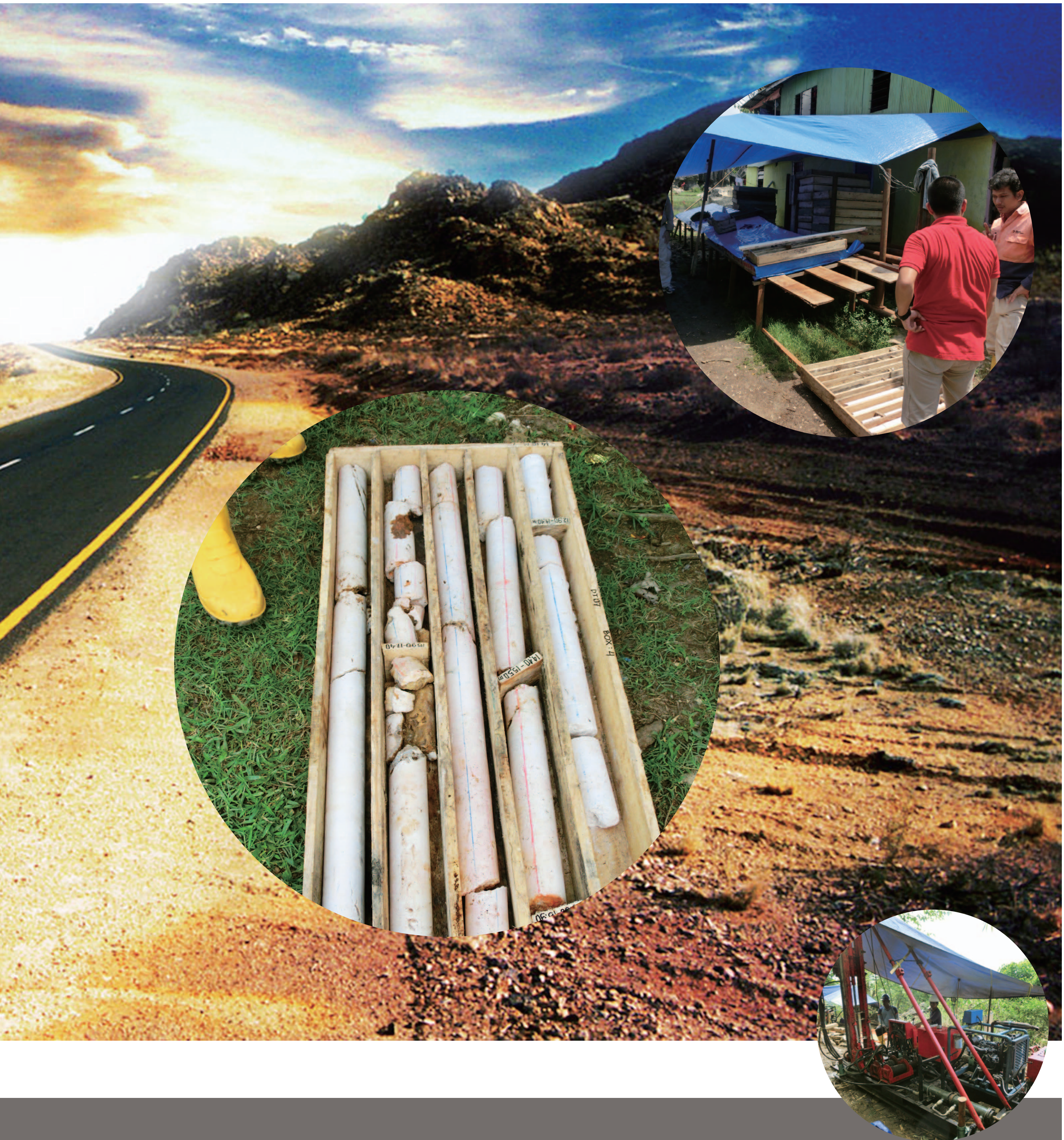
www.enviro-energy.com.hk

Stock Code

1102.HK

Multi-Pronged Upstream Resource Strategy

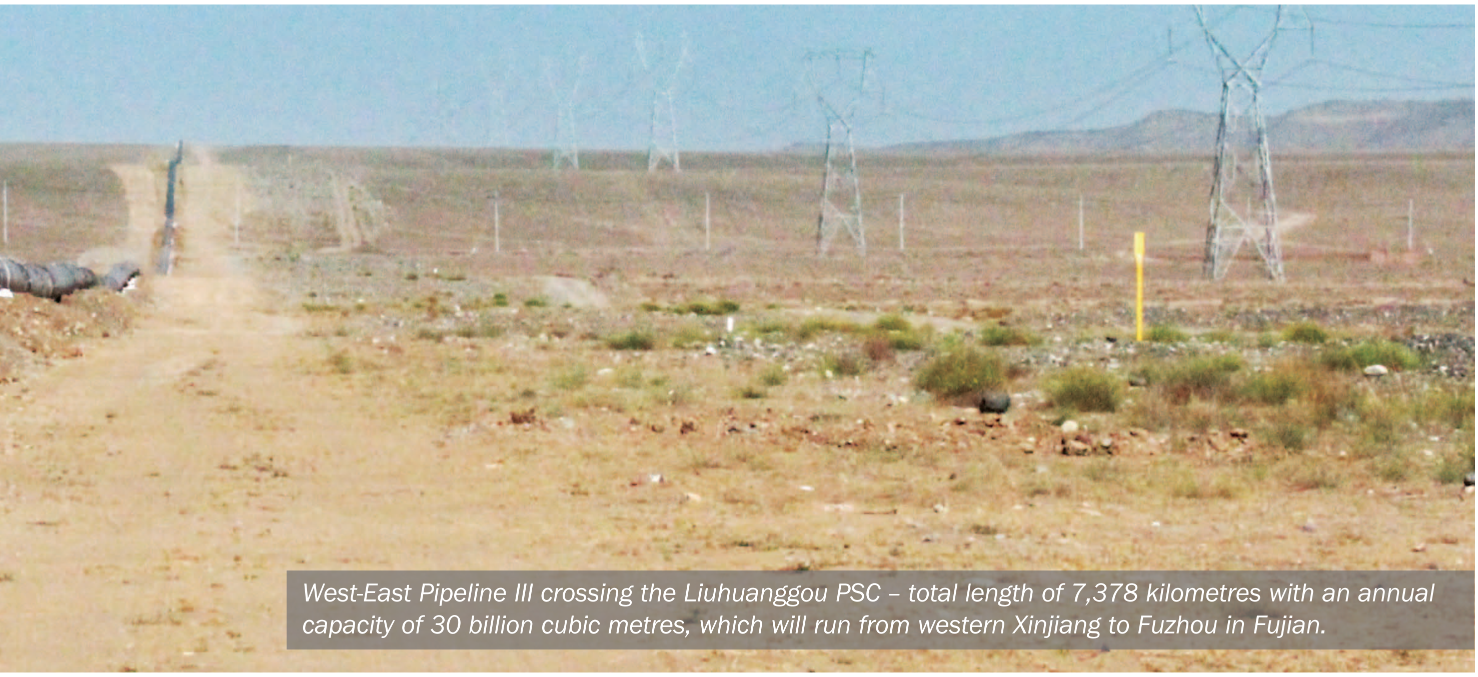
- Hydrocarbons – natural gas, petroleum, coal
- Specialised industrial minerals
- High-value precious and base metals



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.



West-East Pipeline III crossing the Liuhuanggou PSC – total length of 7,378 kilometres with an annual capacity of 30 billion cubic metres, which will run from western Xinjiang to Fuzhou in Fujian.

Well LHG12-02, spudded on 11 November 2012 and drilled to a depth of 750 metres in the prospective Jurassic Badaowan (J1B) formation.

The marble rock exposure at the marble mine located at Barabatu, Labakkang District, Pangkep Regency, South Sulawesi Province, Indonesia.

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 2012.

The year 2012 will be seen as the point when western economies generally began a return to growth, increased job creation and economic stability. However this positive turn does not include all economies and caution remains a watchword for planning ahead.

The political situation in the United States was resolved with a clear re-election of the incumbent President signaling a period of stability. Economic stability in the United States is bolstered by the excellent outlook for domestic energy production. Western Europe remains a spotty mix of positive and negative signals while Asia-Pacific, dominated by the People's Republic of China ("**China**") continues its growth pattern. I am particularly impressed with Southeast Asia's progress and the growth centered on Indonesia during the year. Looking ahead, I foresee Indonesia on track to surpass some of the largest western economies in absolute size within 10 years.

EE has reacted to the broadening economic potential in the entire Asia Pacific and while maintaining excellent assets in China, new projects and opportunities beckon elsewhere in the region.

The medium and long term outlook for natural resources remains very positive.

We continue to balance risk and value creation by utilising a consistent disciplined approach to investing, underpinned by strategic principles.

Going forward EE will invest in future growth by expanding the horizon and the slate of target natural resources by focusing on a greater variety of major projects while retaining the principles noted.

Chairman's Statement

The key segments of our business have been conventional and unconventional hydrocarbons and these will be retained in the portfolio. However we see greater opportunity in expanding the number of key segments with the intended result being enhanced reserve and production performance tied to nearer term cash flow generation. Ultimately EE will have a balanced and highly competitive portfolio of commodities and operations with more geographic diversity.

EE has grown its resource base. As reported last year we successfully added to the discovered and gross unconventional gas resources at our large-scale unconventional gas project located in western China which reflects our objective to create value in the upstream sector, where shareholders traditionally have the greatest leverage. During the year the Company successfully recalculated its discovered coalbed methane ("**CBM**") resources, previously evaluated according to international standards, into the Chinese national standard reserves and resources. This step is a necessary precursor to advancing to economic reserves and commercial development of the gas field. The recalculation was completed by an independent third party CBM expert.

We also added another pilot production well at the China gas project. The exceptional value potential of the China gas project reflects the wisdom of pursuing such projects in regions of exceptional energy demand growth. China is expected to be the area of the world with greatest energy demand growth for the foreseeable future.

We understand the risk profile of such projects and the patience and capital required to develop resources in frontier areas. The payoff is likely to be worth the wait. However, I have personally been disappointed with some aspects of service quality in China and the sometimes unnecessary delays relating to bureaucracy, both of which tend to extend project lead times unnecessarily.

We also recognise the necessity of cash flow and cash flow growth and therefore the corporate benefits of investing in projects with near-term cash flow potential. The financing flexibility alone associated with near term cash flow projects provides a real incentive to the Company. At this stage in the Company's evolution, all shareholders will relate to the benefits of project financing flexibility that can provide options to simply issuing equity.

I wish to highlight as well the potential benefits to the Group of unlocking asset value in the unconventional natural gas project. There is enormous value hidden in the China gas property that currently delivers no revenue. The Company has amassed a much larger developable gas resource than we may be able to fund efficiently and we are therefore examining opportunities to joint venture the project or otherwise cooperate with a partner. The prospective scale of development in China means we are considering cooperation of various kinds with large companies.

Excellence in the Company's business performance is driven by people and I state again that I am constantly reminded of the quality of the talented team of professionals who drive our success by their dedication. Continuing support from our valued business and financial partners as well as you the shareholder is a source of encouragement for the entire Group.

CHAN Wing Him Kenny
Chairman and Chief Executive Officer
Hong Kong, 27 March 2013

Management Discussion and Analysis

We are principally engaged in investment holding and development of the full range of natural resource-related projects involving conventional and unconventional hydrocarbons, other high return natural resource projects and state-of-the-art oil and gas related environmental technologies.

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, warrants and options 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 the Liuhuanggou CBM production sharing contract dated 30 December 2005 ("**PSC**"), which is located in Xinjiang, China. 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 four named geological formations of Jurassic age to a depth of 1,500 metres.

TWE holds the first fully-approved and currently the only 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 2012 Liuhuanggou CBM operations program continued the first CBM pilot production testing under a production sharing contract in western China.

The CBM operations in 2012 included evaluation of previous results, review of the fracture stimulation plans for existing wells and the design and drilling of two additional CBM pilot production wells.

Well LHG12-02 was spudded on 11 November 2012 and drilled to a depth of 750 metres in the prospective Jurassic Badaowan (J1B) formation. The well is located in the vicinity of LHG10-02 and future development plans will coordinate fracture stimulation and production between the two wells. The area is very prospective for natural gas and additional wells are planned.

The operations at LHG12-02 were completed on 8 December 2012 after the downhole geophysical survey.

Well LHG12-01 to be drilled in the vicinity of LHG10-01 to further evaluate the prospective Jurassic Xishanyao (J2X) formation was deferred from 2012 operations to the spring of 2013 due to the inclement winter weather which struck the Liuhuanggou area in December 2012. Equipment remains in the field and ready for mobilisation.

The 2012 operations included the recalculation of certain CBM resource figures for the highest level resources calculated to date. Original gas in place ("**OGIP**") and discovered CBM (Contingent Resources) were estimated by an independent third party in 2010 for a portion of the PSC ("**TWE's discovered CBM area**"). TWE's discovered CBM area represents the area most likely to be the starting point for commercial development and therefore the area targeted for an Overall Development Program ("**ODP**") according to China's CBM regulatory regime. The initial step in ODP is the evaluation of CBM resources and reserves according to the Chinese CBM resource estimation standard DZ/T 0216-2010. An independent third party completed this evaluation for the CBM resources within TWE's discovered CBM area. Next steps in advancing the development of the area include further drilling, fracture stimulation of wells and establishing commercial rates of production.

Management Discussion and Analysis

As previously reported, in October 2011, TWE announced a significant milestone in its development with the results of an independent engineering report prepared by Netherland, Sewell & Associates, Inc. updating estimates for the total Discovered OGIP in the Liuhuanggou CBM PSC area as: a) Grand total Best Estimate OGIP of 11.825 trillion cubic feet ("**Tcf**") of natural gas; and, b) Grand total OGIP Low Estimate of 7.179 Tcf and High Estimate of 19.185 Tcf. As at 31 December 2012, there were no material changes to the resource figures mentioned above.

The discovered CBM resources and the exceptional OGIP estimates reflect the great potential of the Liuhuanggou PSC area and warrant continuing exploration and development efforts.

Conventional crude oil business

As at 31 December 2012, EE indirectly owned 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 2012, the crude oil price in China continued to maintain at a level ranging between approximately US$94 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 80,000 barrels, representing a daily production of approximately 227 barrels.

As disclosed in the announcement of the Company on 11 March 2013, EE completed the disposal of its conventional crude oil business via the disposal of 100% of its wholly-owned subsidiary, Allied Resources Limited, for a cash consideration of RMB50 million (equivalent to approximately HK$61.4 million). Please refer to that announcement for further details.

Natural resource projects

EE responded to the growing economy and favourable economic conditions in Southeast Asia by acquiring limestone/marble assets in Indonesia. The Company indirectly holds approximately 90% of PT. Bara Hugo Energy ("**BHE**") which in turn holds 37.5% of PT. Grasada Multinational ("**GM**"), which holds a mining permit covering the Maros Marble Project in southwestern Sulawesi, Indonesia. BHE also holds warrants in GM which upon exercise will bring its shareholding in GM to 60%.

BHE initiated geological evaluation and drilling at the Maros marble project during the year incurred capital expenditure of approximately HK$0.9 million since acquisition. A five hole drilling program was undertaken to explore the resource base and sample the quality of the ore body. Various samples were sent to labs in Indonesia for assessment. Detailed evaluations are expected to be undertaken during 2013. In due course following evaluation of the results of current activities, the Company plans to proceed to complete marble resource and reserve estimations according to international industry standards, and will provide shareholders updates as and when appropriate. Commercial development could then follow should marble reserves be identified.

Subsequent to the year end, on 18 March 2013, the Company through one of its wholly-owned subsidiaries executed a memorandum of understanding on production and operation of a producing marble mine in Indonesia, which is expected to contribute immediate strong profits and cash flow. The mine concession covers approximately 20 hectares located at Barabatu, Labakkang District, Pangkep Regency, South Sulawesi Province, Indonesia, an area known for good quality marble quarries. The scale of potentially recoverable marble is not known with certainty but is substantial, and a geological report conducted in 1997 estimated uncategorised marble resources at the concession to exceed seven (7) million cubic metres. The mine was previously producing on average 500 cubic metres of marble products per month, mainly in the highly sought French white cream and Italian yellow amber colours.

Management Discussion and Analysis

Advanced production technologies

EE specialises in the injection of carbon dioxide ("**CO_2**") or a gas mixture including CO_2 into geological formations to enhance hydrocarbon recovery and creating storage capacity for the CO_2 in the reservoirs, for example, enhanced oil recovery ("**EOR**") and enhanced coalbed methane recovery ("**ECBM**").

The initial phase of the Deep Unmineable Coal Carbon Dioxide Sequestration and Enhanced CBM Production Project operated under a cooperative joint research venture agreement between the Company, China United Coalbed Methane Corporation Limited ("**CUCBM**") and Petromin Resources Ltd. ("**Petromin**") was completed in 2011. The initial phase was a single-well pilot project which involved injecting CO_2 into a target coal seam to test CO_2 sequestration and enhanced CBM production. A second phase which involves multi-well pilot testing was initiated during 2012. EE and Petromin will continue to evaluate our position in this Project. The business model must be appropriate in order for us to participate. EE will act in an advisory capacity in this second phase.

During the year EE reviewed a number of synergistic project opportunities that have potential to add value to the Group's investment portfolio. 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.

Business Prospects

Unconventional natural gas business

Unconventional natural gas is that category of natural gas which includes CBM and shale gas in addition to other sources. China 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 China by a wide margin and the development opportunities for CBM and other unconventional natural gas resources are highly sought after.

The central government of China actively promotes the exploration and development of unconventional natural gas and conducted further shale gas land auctions in 2012 with only Chinese companies participating. The auction was disappointing in the inclusion of Chinese companies only and some winning bids were received from non-resource companies.

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 China, 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 China via both the national 1st and 2nd West-East pipelines. The 3rd West-East pipeline is under construction and parallels the 2nd West-East pipeline crossing the Liuhuanggou PSC.

The Company anticipates continuing natural gas demand growth in China 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 greater than US$6.50 per thousand cubic feet ("**mcf**"). The central government of China also provides a price subsidy equivalent to over US$1.00 per mcf to CBM sales price and various reports cite speculation the subsidy may increase again in the coming year to encourage further exploration and development.

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

Management Discussion and Analysis

China's 12th Five Year Plan ("**Plan**"), announced in July 2011 focuses strongly on natural gas and highlights incentives to explore for and develop unconventional natural gas including CBM and shale gas. Natural gas consumption is expected to reach 235 billion cubic metres (or 8.2 Tcf) by 2015 which is more than double the demand of 2010. Imports will remain important but there is a huge drive to produce more gas domestically as reflected in the Plan.

The Plan also encourages investment in frontier areas such as Xinjiang with the objective of increasing and expanding energy and transportation infrastructure. The results of actions emerging from the Plan are clearly evident in Urumqi city, the capital of Xinjiang where new housing, major highway infrastructure and local gas pipeline construction are frequently seen. The initiative will lead to sizeable increases in energy demand in Xinjiang, including demand for natural gas.

Global economy and outlook

Recovery of western economies continued during the year and the outlook is generally positive although not without some problem areas. The election in the United States returned the incumbent President which was positive for stability in global markets. Western Europe has added strength but sovereign debt and required low rates of government spending and investment remain troublesome. In Asia the performance and outlook are generally better across the board. At the beginning of the year there was some recovery in major commodity prices including iron ore which is positive to the outlook and Chinese demand remains the key driver for all major commodity price levels.

The relatively low price for natural gas is expected to impact coal demand in the United States as more gas is utilized to generate electricity. In fact gas demand growth in the United States was robust in response to continuing low prices. Coal production dropped marginally as a result. Outside North America gas demand increased rapidly in China and Japan — Japan reflecting the necessary shift from nuclear-powered electricity.

The Group continues to interpret the global and regional situation in petroleum and natural gas as supporting its continued involvement in the upstream hydrocarbon business in China and the Group continually assesses opportunities to increase shareholder value and/or capture value from current operations as well as monetize assets when supportive of the corporate business plan.

Other natural resource: Opportunities and markets

Whilst western economies advance out of recession with only marginal success the Asia Pacific led by China and Southeast Asia march forward and the economic potential of the entire region is attractive for new resource investment. The Company takes special note of opportunities to generate near-term cash and create value in niche resource markets including some specialised industrial minerals and oilfield service commodities.

The building boom across the region, so evident in major cities such as Jakarta, is driving demand for limestone and marble as decorative stone. Of course China's urban growth remains a key driver of demand for this product as well. Demand is such that growth in imports of stone from such traditional suppliers as Italy and Turkey is robust while the search for local supply within the region is extensive. Any supply source within the region, offering suitable quality and shorter supply lines will be of great competitive advantage.

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. The ongoing expansion of shale gas exploration in Australia and China is key to specialised product demand in the Asia Pacific.

Management Discussion and Analysis

Financial Review

Oil and gas segment

Unconventional natural gas business

During the year ended 31 December 2012, EE's unconventional natural gas businesses were still in exploration and evaluation phases.

During the year ended 31 December 2012, the capital expenditure incurred for EE's unconventional natural gas businesses amounted to approximately HK$8.1 million. TWE continued production testing on the pilot production wells drilled in 2010 and 2012, 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 program 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 2012, the crude oil price in China continued to maintain at a level ranging between approximately US$94 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 83,000 barrels (2011: 101,000 barrels), representing a daily production of approximately 227 barrels (2011: 277 barrels). As at 31 December 2012, as EE indirectly owned 50% of Qian An, the Group recorded an overall share of loss of Qian An for the year ended 31 December 2012, after taking into account depreciation and tax considerations, amounted to approximately HK$3.1 million (2011: share of profit HK$1.2 million).

As disclosed in the announcement of the Company on 11 March 2013, EE completed the disposal of its conventional crude oil business via the disposal of 100% of its wholly-owned subsidiary, Allied Resources Limited, for a cash consideration of RMB50 million (equivalent to approximately HK$61.4 million). The gain expected to accrue to the Company on the disposal is approximately HK$82.2 million, which is equal to the difference between the carrying value of the disposal group as at date of the agreement, the consideration and cumulative exchange differences.

Information technology ("IT") and network infrastructure segment

During the year ended 31 December 2012, 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 2012 amounted to approximately HK$0.1 million (2011: HK$0.2 million).

Administrative and operating expenses

For the year ended 31 December 2012, administrative and operating expenses amounted to approximately HK$74.0 million (for the year ended 31 December 2011: HK$77.7 million), representing a decrease of approximately 4.8%. The decrease was mainly due to the decrease of share-based payment expenses.

During the year ended 31 December 2012, share-based payment expenses amounted to HK$3.3 million (2011: HK$4.4 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$14.6 million (2011: HK$26.3 million), of which HK$9.7 million (2011: HK$19.4 million) was recorded as investor relations expenses and HK$4.9 million (2011: HK$6.9 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.

Management Discussion and Analysis

Other comprehensive income

During the year ended 31 December 2012, exchange differences mainly arising on translation of the Canadian operation amounted to approximately HK$19.0 million (2011: HK$20.6 million) because the Canadian dollar ("**C$**") appreciated 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 2012 amounted to approximately HK$73.4 million (for the year ended 31 December 2011: HK$76.7 million).

Liquidity and Financial Resources

For the year ended 31 December 2012, 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 2012, the Group had bank balances and cash of approximately HK$27.5 million (as at 31 December 2011: HK$48.9 million). Subsequent to the year-end 31 December 2012, the Company completed the disposal transaction on Allied Resources Limited and sales proceed of approximately HK$61.4 million has been received on 11 March 2013. The Group's current ratio stood at approximately 0.6 as at 31 December 2012 (as at 31 December 2011: 1.9).

On 2 June 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 issuance 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.

On 10 August 2012, EE allotted and issued 154,000,000 new shares at the subscription price of HK$0.152 per share. The net proceeds from the subscription amounted to approximately HK$22.6 million.

Also on 10 August 2012, EE issued 50,000,000 non-listed warrants which entitle the warrant subscriber to subscribe for new shares of the Company at the warrant subscription price of HK$0.38 per new share for a period of eighteen (18) months commencing from the date of issuance of the warrants. Upon full exercise of the warrants, EE would be able to raise net proceeds of approximately HK$19.0 million. Details regarding the share and warrant subscriptions have been disclosed in the Company's announcements dated 30 July 2012 and 10 August 2012, respectively.

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$, Renminbi and United States dollars ("**US$**"). EE's financial risk management objectives and policies are reviewed regularly by the Board.

As at 31 December 2012, the Group had net assets of approximately HK$1,056.6 million (as at 31 December 2011: HK$914.4 million).

As at 31 December 2012, the Group continued to maintain a debt-free capital structure.

As at 31 December 2012, 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 2011: Nil).

Management Discussion and Analysis

Charge on Group Assets

As at 31 December 2012, the Group did not have any charge on its assets (as at 31 December 2011: Nil).

Foreign Exchange Exposure

EE mainly earned revenue and incurred costs in HK$, Renminbi, C$, Indonesian Rupiah and US$. The Directors and senior management will continue to monitor closely the foreign 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 2012, the Group had capital commitments amounting to approximately HK$4.2 million (as at 31 December 2011: HK$17.9 million).

Contingent Liabilities

As at 31 December 2012, the Group had no contingent liabilities (as at 31 December 2011: Nil).

Significant Investments and Future Plans for Material Investments

Save as disclosed in the sections headed "Business Review" and "Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies", during the year ended 31 December 2012, the Group did not make any significant investments or future plans for material investments.

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

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

As disclosed in the announcements of the Company on 2 April 2012 and 15 May 2012, EE, through CCST Singapore Pte. Ltd., its wholly-owned subsidiary, acquired a 95% interest of Hugo Link Global Investments Limited ("**Hugo Link**") for considerations of US$3.5 million (equivalent to approximately HK$27.3 million) in cash and issuance of 452,400,000 new shares of the Company. Hugo Link holds 95% of BHE which in turn holds 37.5% of GM. BHE also holds warrants in GM which upon exercise will bring its shareholding in GM to 60%.

As disclosed in the announcement of the Company on 11 March 2013, Allied Resources Limited, being a wholly-owned subsidiary of the Company, and the purchaser, have on 11 March 2013 entered into the deed of cancellation pursuant to which the parties have agreed to terminate and release all their respective rights and obligations under and pursuant to the agreement dated 18 October 2012 in relation to the sale and purchase of 100% of Jilin Hengli Industries Liability Co., Ltd, an indirect wholly-owned subsidiary of the Company with effect from the signing of the deed of cancellation. Also on 11 March 2013, the Company and the new purchaser have entered into the disposal agreement pursuant to which the Company has agreed to sell and the new purchaser has agreed to acquire 100% of Allied Resources Limited for a cash consideration of RMB50 million (equivalent to approximately HK$61.4 million) and the new purchaser agreed to pay the Company the cash balance of Allied Resources Limited as at 28 February 2013 on completion. The transaction was completed on 11 March 2013. Please refer to that announcement for further details.

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**").

Management Discussion and Analysis

Employees' Information

As at 31 December 2012, the Group had 29 full-time employees (as at 31 December 2011: 25) working in Hong Kong, China, Indonesia 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.

Summary of Resources

As previously reported in 2010, an independent third party evaluation according to reporting standard National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities (NI 51-101) provided gross (100%) estimates of CBM Discovered Gas Initially in Place contained in the target coal seams within a defined area ranging from the following:

	(low)	(best)	(high)
CBM Discovered Gas Initially in Place	70 billion cubic feet ("**Bcf**")	147.43 Bcf	514.07 Bcf

A further independent third party evaluation in 2011 according to the Petroleum Resources Management System (PRMS) of the Society of Petroleum Engineers (SPE) estimated a (gross) grand total Best Estimate Original Gas in Place (OGIP) ranging from the following:

	(low)	(best)	(high)
OGIP	7.179 trillion cubic feet ("**Tcf**")	11.825 Tcf	19.185 Tcf

This updating evaluation covered the target coal seams outside the previously evaluated area and all other prospective formations for the entire PSC area.

As at 31 December 2012, there were no material changes to the resource figures mentioned above.

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 Stock Exchange has revised and renamed the Code on Corporate Governance Practices (the "**Former CG Code**") set out in Appendix 14 to the Listing Rules to Corporate Governance Code (the "**New CG Code**") effective 1 April 2012. Throughout the year ended 31 December 2012, the Company has complied with the respective code provisions ("**Code Provisions**") of the Former CG Code and the New CG Code for the relevant periods in which they are in force, except for certain deviations specified with considered reasons 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 2012.

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 26 to 29 of this report.

The Board meets regularly and at least twice a year. The Board held four meetings during the year ended 31 December 2012. The attendance of individual Directors at Board and Board committee meetings during 2012 is set out in the following table:

	Meetings attended/eligible to attend (Note 1)		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee (Note 2)**
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

Notes:

1. 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**").

2. The Remuneration Committee (hereinafter defined) did not hold any meeting during the year ended 31 December 2012. A meeting of the Remuneration Committee was held on 15 March 2013 for reviewing and approving the year-end bonus for 2012 for certain Directors.

Corporate Governance Report

During the year ended 31 December 2012, 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.

In compliance with Code Provision C.1.2 of the New CG Code which took effect on 1 April 2012, during the period from 1 April 2012 to 31 December 2012, the management of the Company had provided all members of the Board with monthly updates of the Group's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties under relevant requirements of the Listing Rules.

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 Mergers and Share Repurchases, the Companies Ordinance, Chapter 32 of the Laws of Hong Kong ("**Companies Ordinance**"), 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 2012, 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.

The Company has put in place appropriate insurance cover in respect of Directors' liability.

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 Senior Vice Presidents of the Company in strategic planning and business development in relation to all new resource projects, including hydrocarbons, industrial minerals and other commodities 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.

Corporate Governance Report

Under Code Provision A.2.1 of the Former CG Code and the New 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 Former CG Code and the New CG Code for the relevant periods in which they are in force.

Nomination of directors

Under Code Provisions A.5.1 to A.5.5 of the New CG Code, the Company should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive 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 Former CG Code and Code Provisions A.5.1 to A.5.5 under the New CG Code for the relevant periods in which they are in force for the year ended 31 December 2012.

During the year ended 31 December 2012, the role of the proposed nomination committee was performed by the Board. The Board is of the view that this has not prejudiced the Company in appointment of directors for the following reasons:

- The INEDs form the majority of the Board; and
- The INEDs have free and direct access to the Company's independent professional advisers when considered necessary.

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.

Corporate Governance Report

Directors' training and professional development

All Directors must keep abreast of their collective responsibilities. Any new appointed director would receive an induction package covering the Group's businesses and the statutory regulatory obligations of a director of a listed company. During the period from 1 April 2012 to 31 December 2012, the Company had arranged and provided funding for Directors to attend professional development courses and seminars to develop and refresh their knowledge and skills to ensure that the Directors' contribution to the Board remains informed and relevant. The topics of such training include, among others, industry updates, corporate financing, global and Asia economic outlook for 2012, investment in Asia, updates on the Companies Ordinance and investor relations. The Company has devised a training record for each Director to assist them to record the training they have undertaken. The Group continuously updates the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to Directors and senior management where appropriate, to ensure awareness of best corporate governance practices.

During the period from 1 April 2012 to 31 December 2012, the Directors had complied with Code Provision A.6.5 of the New CG Code which took effect on 1 April 2012.

Independent auditors' remuneration

During the year ended 31 December 2012, the independent auditors provided the following audit and permissible non-audit services to the Company:

	2012 **HK$'000**	2011 HK$'000
Audit for current year	**1,750**	1,450
(Over)/under-provision in prior year	**(53)**	165

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 Former CG Code and the New CG Code for the relevant periods in which they are in force 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 New 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 New 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.

Corporate Governance Report

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.

In order to comply with the New CG Code, the Board adopted a revised terms of reference of the Audit Committee on 29 March 2012. The revised terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company, respectively.

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 2012, 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 18 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.

Corporate Governance Report

Remuneration committee

During the period from 1 January 2012 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 management's remuneration proposals with reference to the Board's corporate goals and objectives. The Remuneration Committee shall consult with the Chairman on its proposals and recommendations, and has access to professional advice if deemed necessary. The Remuneration Committee's authority and duties are set out in written terms of reference which are publicly available on the websites of the Stock Exchange and the Company, respectively.

The Remuneration Committee did not hold any meeting during the year ended 31 December 2012. A meeting of the Remuneration Committee was held on 15 March 2013 for reviewing and approving the year-end bonus for 2012 for certain 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 18 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.

Corporate Governance Functions

The Board is collectively responsible for performing the corporate governance duties. During the year ended 31 December 2012, the Board formalised the inclusion of the following corporate governance duties into the terms of reference of the Board:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Company's employees and directors; and

(e) to review the Company's compliance with the New CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2012, the Board also revised the terms of reference of the Remuneration Committee and the Audit Committee in accordance with the requirements of the New CG Code. The Board also devised the Shareholders' Communication Policy and the Procedures for Shareholders to Propose a Person for Election as Director of the Company as referred to in the section headed "Shareholders' rights" of this Corporate Governance Report as well as the Policy for Employees to Raise Concerns for employees' reference.

Corporate Governance Report

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 2012. 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 2012 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 Former CG Code and the New CG Code for the relevant periods in which they are in force for the year ended 31 December 2012.

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.

Pursuant to the Articles of Association, extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition.

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 2012, an annual general meeting was held on 17 May 2012. 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.

Corporate Governance Report

Shareholders may put forward their enquiries about the Company to the Board or the Company Secretary at the Company's head office in Hong Kong or by email or through the Investor Relations Director of the Company.

On 29 March 2012, the Company adopted the Shareholders' Communication Policy and the Procedures for Shareholders to Propose a Person for Election as Director of the Company which are publicly available 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.

Constitutional documents

There had been no change in the Company's constitutional documents during the year ended 31 December 2012.

Directors, International Advisory Board and Senior Management Profile

Executive directors

Mr. CHAN Wing Him Kenny, aged 62, 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 32 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, Executives' Global Network Hong Kong and Association of International Petroleum Negotiators, respectively.

Dr. Arthur Ross GORRELL, aged 68, 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 42 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 65, 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, CPA Australia, the Society of Chinese Accountants and Auditors and the Certified General Accountants Association of Canada, respectively.

Directors, International Advisory Board and Senior Management Profile

Mr. LO Chi Kit, aged 52, 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 57, 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 25 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.

International advisory board

Dr. William D. GUNTER, aged 70, 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 17 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 APEGA (an association which registers, sets practice standards and determines disciplinary actions for Professional Engineers and Geoscientists 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).

Directors, International Advisory Board and Senior Management Profile

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.

Senior management

Mr. Donald O. DOWNING, aged 65, 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 due diligence of new resource projects of the Group including hydrocarbons, industrial minerals and other commodities. Mr. Downing has 42 years of experience in geology, executive management, international commodity marketing and consulting for the global energy and resource industries.

A geologist, he was previously 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 for over seven years. With expert colleagues, Mr. Downing founded successful unconventional natural gas exploration companies in Canada, NRL Energy Ltd. and Outrider Energy Ltd. and was a founding managing director and president 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 has been named life member and fellow of the Canadian Institute of Mining and Metallurgy (FCIM) and is a member of Association of International Petroleum Negotiators, respectively.

Directors, International Advisory Board and Senior Management Profile

Mr. WONG Sum Lok Sam, aged 63, 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 31 years experience in process development, and research and development in conventional and unconventional resource development. Over the past 16 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 and Geoscientists of Alberta, Canada (APEGA) and member of the International Association of Energy Economics.

Mr. CHAN Wan Tsun Adrian Alan, aged 34, 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, the Hong Kong Institute of Certified Public Accountants and Association of International Petroleum Negotiators, 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.

Ms. MOK Kam Sheung, aged 53, 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 legal and regulatory compliance matters as well as the company secretarial and corporate affairs of the Group. Ms. Mok has over 16 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, the Law Society of England and Wales, China Notary Association, the Association of China-Appointed Attesting Officers and Association of International Petroleum Negotiators, respectively. 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. Ms. Mok was appointed as a China-Appointed Attesting Officer by the Ministry of Justice of the People's Republic of China in 2012.

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 2012.

Principal activities

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

Results and appropriations

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012.

The results of the Group for the year ended 31 December 2012 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 2012 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 2012 are set out in note 31 to the consolidated financial statements.

Reserves

As at 31 December 2012, 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$107.6 million in aggregate as at 31 December 2012, 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 2012 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 2012, 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 69.5%.

During the year ended 31 December 2012, purchases from the Group's five largest suppliers accounted for approximately 100% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 53.7%.

Save as disclosed above, during the year ended 31 December 2012, 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 2012 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. Arthur Ross Gorrell and Mr. Lo Chi Kit will retire from their offices at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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

Directors, international advisory board and senior management profile

Biographical details of the Directors, International Advisory Board and senior management of the Group are set out on pages 26 to 29 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 1 March 2013 and 27 June 2011 for an initial fixed term of three years commencing from 30 November 2012 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 37 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 2012.

Report of the Directors

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

As at 31 December 2012, 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	36.24%
Arthur Ross Gorrell	Beneficial owner	Personal interest	2,625,000	5,200,000 (Note 2)	7,825,000	0.23%
David Tsoi	Beneficial owner	Personal interest	–	1,150,000 (Note 2)	1,150,000	0.03%
Lo Chi Kit	Beneficial owner	Personal interest	–	800,000 (Note 2)	800,000	0.02%
Tam Hang Chuen	Beneficial owner	Personal interest	1,000,000	300,000 (Note 2)	1,300,000	0.04%

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.

Report of the Directors

Save as disclosed above, as at 31 December 2012, 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 shareholders and other persons interests and short positions in shares and underlying shares

So far as is known to any Director, as at 31 December 2012, the following parties (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were 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 or underlying shares of the Company

Substantial shareholders

Name	Long/Short positions	Capacity	Number of shares or underlying shares held	Approximate % of shareholding
Colpo	Long positions	Beneficial owner	1,188,680,000 (Note 1)	35.12%
	Short positions	Beneficial owner	200,000,000 (Note 2)	5.91%
Cool Legend Limited ("**Cool Legend**")	Long positions	Beneficial owner	452,400,000 (Note 3)	13.37%
Other shareholders				
Cheung Kong (Holdings) Limited (Note 4)	Long positions	Interest of controlled corporations	200,000,000 (Note 4)	5.91%
Hutchison Whampoa Limited (Note 4)	Long positions	Interest of controlled corporations	200,000,000 (Note 4)	5.91%
Cheung Kong Infrastructure Holdings Limited (Note 4)	Long positions	Interest of controlled corporations	200,000,000 (Note 4)	5.91%
Li Ka-Shing Unity Trustee Company Limited (Note 4) (as trustee of The Li Ka-Shing Unity Trust)	Long positions	Trustee	200,000,000 (Note 4)	5.91%
Li Ka-Shing Unity Trustcorp Limited (Note 4) (as trustee of another discretionary trust)	Long positions	Trustee & beneficiary of a trust	200,000,000 (Note 4)	5.91%
Li Ka-Shing Unity Trustee Corporation Limited (Note 4) (as trustee of The Li Ka-Shing Unity Discretionary Trust)	Long positions	Trustee & beneficiary of a trust	200,000,000 (Note 4)	5.91%
Li Ka-shing (Note 4)	Long positions	Founder of discretionary trust	200,000,000 (Note 4)	5.91%
Green Island (Note 4)	Long positions	Beneficial owner	200,000,000 (Note 4)	5.91%

Report of the Directors

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.

3. The entire issued share capital of Cool Legend is solely and beneficially owned by Mr. Thio Sing Tjay Charles, a director of Hugo Link, a subsidiary of the Company, who is therefore deemed to be interested in 452,400,000 shares held by Cool Legend.

4. Mr. Li Ka-shing is the settlor of each of The Li Ka-Shing Unity Discretionary Trust ("**DT1**") and another discretionary trust ("**DT2**"). Each of Li Ka-Shing Unity Trustee Corporation Limited ("**TDT1**", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("**TDT2**", which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust ("**UT1**") but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. The discretionary beneficiaries of each of DT1 and DT2 are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children and Mr. Li Tzar Kai, Richard. Li Ka-Shing Unity Trustee Company Limited ("**TUT1**") as trustee of UT1 together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("**CKH**"). CKH is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Hutchison Whampoa Limited ("**HWL**"). HWL owns the entire issued share capital of Hutchison International Limited ("**HIL**"). HIL owns the entire issued share capital of Hutchison Infrastructure Holdings Limited, which in turn is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Cheung Kong Infrastructure Holdings Limited ("**CKI**"). Green Island is an indirect wholly-owned subsidiary of CKI.

   The entire issued share capital of each of TUT1, TDT1 and TDT2 are owned by Li Ka-Shing Unity Holdings Limited ("**Unity Holdco**"). Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor are respectively interested in one-third and two-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor as a holder of the shares of Unity Holdco as aforesaid.

   By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1,TDT1, TDT2, CKH, HWL and CKI is deemed to be interested in the 200,000,000 underlying shares of the Company held by Green Island.

Save as disclosed above, as at 31 December 2012, 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.

Report of the Directors

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 2012 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 2012	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2012
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

Report of the Directors

Name or category of participants	Date of grant	Exercise period	Exercise price per share (HK$)	As at 1 January 2012	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2012
Other employees								
In aggregate	19/06/2008	19/06/2010 to 19/06/2018	0.2316	8,350,000(3)	–	–	–	8,350,000(3)
	15/06/2009	15/06/2011 to 15/06/2019	0.73	4,030,000(3)	–	–	–	4,030,000(3)
	06/10/2009	06/10/2011 to 06/10/2019	0.75	60,000(3)	–	–	–	60,000(3)
	04/02/2010	04/02/2012 to 04/02/2020	0.514	7,230,000(3)	–	–	–	7,230,000(3)
	09/07/2010	09/07/2012 to 08/07/2020	0.56	7,700,000(4)	–	–	–	7,700,000(4)
				27,370,000	–	–	–	27,370,000
Others								
In aggregate	20/03/2007	20/03/2007 to 24/01/2013	0.1125(1)	15,840,000(1)	–	–	–	15,840,000(1)
	26/04/2007	26/04/2007 to 24/01/2013	0.579(2)	1,000,000(2)	–	–	–	1,000,000(2)
	22/06/2007	22/06/2007 to 24/01/2013	1.365(2)	13,000,000(2)	–	–	–	13,000,000(2)
	29/10/2007	29/10/2007 to 24/01/2013	2.44	23,500,000	–	–	–	23,500,000
	19/06/2008	19/06/2010 to 19/06/2018	0.2316	500,000(3)	–	–	–	500,000(3)
	15/06/2009	15/06/2011 to 15/06/2019	0.73	20,000,000(3)	–	–	–	20,000,000(3)
	06/10/2009	06/10/2011 to 06/10/2019	0.75	350,000(3)	–	–	–	350,000(3)
	04/02/2010	04/02/2012 to 04/02/2020	0.514	50,250,000(3)	–	–	–	50,250,000(3)
	09/07/2010	09/07/2012 to 08/07/2020	0.56	61,850,000(4)	–	–	–	61,850,000(4)
				186,290,000	–	–	–	186,290,000
			Total:	249,607,200	–	–	–	249,607,200(5)
Weighted average exercise price per share (HK$)				0.73	–	–	–	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 day falling one day preceding the tenth anniversary from the date of grant. The balance of 50% of the share options are exercisable in a period commencing three (3) years from the date of grant and expiring on the day falling one day preceding the tenth anniversary from the date of grant.

(5) As at 31 December 2012, the Company had 249,607,200 (31 December 2011: 249,607,200) share options outstanding under the 2003 Share Option Scheme, which represented approximately 7.38% (31 December 2011: approximately 8.99%) of the Company's shares in issue on that date.

Report of the Directors

(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 2012 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$)	As at 1 January 2012	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2012
Executive Directors								
Chan Wing Him Kenny	31/12/2012	31/12/2013 to 30/12/2022	0.163	–	15,000,000[1 & 2]	–	–	15,000,000[1 & 2]
Arthur Ross Gorrell	31/12/2012	31/12/2013 to 30/12/2022	0.163	–	2,000,000[1 & 2]	–	–	2,000,000[1 & 2]
Independent non-executive Directors								
David Tsoi	23/06/2011	23/06/2012 to 22/06/2021	0.435	150,000[2]	–	–	–	150,000[2]
	31/12/2012	31/12/2013 to 30/12/2022	0.163	–	350,000[1 & 2]	–	–	350,000[1 & 2]
Lo Chi Kit	23/06/2011	23/06/2012 to 22/06/2021	0.435	100,000[2]	–	–	–	100,000[2]
	31/12/2012	31/12/2013 to 30/12/2022	0.163	–	300,000[1 & 2]	–	–	300,000[1 & 2]
Tam Hang Chuen	23/06/2011	23/06/2012 to 22/06/2021	0.435	100,000[2]	–	–	–	100,000[2]
	31/12/2012	31/12/2013 to 30/12/2022	0.163	–	300,000[1 & 2]	–	–	300,000[1 & 2]
				350,000	17,950,000	–	–	18,300,000
Other employees								
In aggregate	23/06/2011	23/06/2012 to 22/06/2021	0.435	4,250,000[2]	–	(50,000)[2]	–	4,200,000[2]
	31/12/2012	31/12/2013 to 30/12/2022	0.163	–	14,750,000[2]	–	–	14,750,000[2]
				4,250,000	14,750,000	(50,000)	–	18,950,000
Others								
In aggregate	23/06/2011	23/06/2012 to 22/06/2021	0.435	45,350,000[2]	–	–	–	45,350,000[2]
	31/12/2012	31/12/2013 to 30/12/2022	0.163	–	4,250,000[2]	–	–	4,250,000[2]
				45,350,000	4,250,000	–	–	49,600,000
			Total:	49,950,000	36,950,000	(50,000)	–	86,850,000[3]
Weighted average exercise price per share (HK$)				0.435	0.163	0.435	–	0.319

Notes:

(1) Pursuant to acceptance letters dated 17 January 2013 signed by the Directors, they accepted the offer of share options granted to them on 17 January 2013.

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

(3) As at 31 December 2012, the Company had 86,850,000 (31 December 2011: 49,950,000) share options outstanding under the 2011 Share Option Scheme, which represented approximately 2.57% (31 December 2011: 1.80%) of the Company's shares in issue on that date.

(4) During the year ended 31 December 2012, 36,950,000 share options were granted on 31 December 2012. The closing price of the Company's shares on the date of which the aforesaid share options were granted was HK$0.163.

Report of the Directors

(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 2012, 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 were granted by TWE to certain of its directors and consultants to subscribe for common shares of TWE on 27 August 2008. These options were all lapsed on 27 August 2011.

Competing business and conflicts of interest

During the year ended 31 December 2012, 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 2012, Mr. Chan Wing Him Kenny held 1,000,000 stock options entitling him to subscribe for 1,000,000 common shares (representing approximately 1.49% of the issued common share capital) in Petromin. Dr. Arthur Ross Gorrell held 4,068,193 common shares (representing approximately 6.05% of the issued common share capital) in Petromin and 1,000,000 stock options entitling him to subscribe for 1,000,000 common shares (representing approximately 1.49% of the issued common share capital).

Petromin is engaged in the business of acquisition and development of oil and gas properties. As of 31 December 2012, 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 2012.

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 2012.

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.

Report of the Directors

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 2012.

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, 27 March 2013

Independent Auditor's Report

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 42 to 105, which comprise the consolidated and company balance sheets as at 31 December 2012, 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.

Independent Auditor's Report

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 2012, 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, 27 March 2013

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 2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	17	**3,005**	2,616
Exploration and evaluation assets	18	**1,316,257**	1,103,650
Interest in a jointly-controlled entity	21	**–**	3,683
Available-for-sale investment	23	**1,484**	529
Club memberships		**2,700**	2,700
Deposits	25	**574**	19,500
		1,324,020	1,132,678
Current assets			
Trade receivables	24	**2**	–
Deposits, prepayments and other receivables	25	**2,938**	2,095
Financial asset at fair value through profit or loss	26	**3,321**	1,874
Bank balances and cash	27	**25,884**	48,906
		32,145	52,875
Assets of disposal group classified as held-for-sale	30	**1,711**	–
		33,856	52,875
Total assets		**1,357,876**	1,185,553

Consolidated Balance Sheet

	Notes	As at 31 December 2012 HK$'000	2011 HK$'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	31	8,461	6,945
Share premium and reserves		693,598	676,901
		702,059	683,846
Non-controlling interests		354,589	230,592
Total equity		1,056,648	914,438
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	29	247,733	243,359
Current liabilities			
Other payables	28	33,190	27,756
Liabilities of disposal group classified as held-for-sale	30	20,305	–
		53,495	27,756
Total liabilities		301,228	271,115
Total equity and liabilities		1,357,876	1,185,553
Net current (liabilities)/assets		(19,639)	25,119
Total assets less current liabilities		1,304,381	1,157,797

Chan Wing Him Kenny
Director

Arthur Ross Gorrell
Director

The notes on pages 50 to 105 are an integral part of these financial statements.

Balance Sheet

	Notes	As at 31 December 2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	17	**625**	873
Investments in subsidiaries	19	**–**	–
Available-for-sale investment	23	**1,484**	529
Deposit	25	**319**	–
		2,428	1,402
Current assets			
Amounts due from subsidiaries	20	**245,150**	158,302
Deposits, prepayments and other receivables	25	**934**	1,112
Bank balances and cash	27	**14,919**	42,462
		261,003	201,876
Total assets		**263,431**	203,278
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	31	**8,461**	6,945
Share premium and reserves	32	**243,667**	193,761
Total equity		**252,128**	200,706
LIABILITIES			
Current liabilities			
Other payables		**11,303**	2,572
Total liabilities		**11,303**	2,572
Total equity and liabilities		**263,431**	203,278
Net current assets		**249,700**	199,304
Total assets less current liabilities		**252,128**	200,706

Chan Wing Him Kenny
Director

Arthur Ross Gorrell
Director

The notes on pages 50 to 105 are an integral part of these financial statements.

Consolidated Income Statement

	Notes	Year ended 31 December 2012 HK$'000	2011 (Restated) HK$'000
Continuing operations:			
Revenue	8	**69**	164
Cost of sales	10	**(35)**	(123)
Gross profit		**34**	41
Other gain/(loss), net	9	**1,597**	(1,753)
Administrative and operating expenses		**(74,189)**	(74,076)
Finance income	11	**442**	454
Loss before taxation	10	**(72,116)**	(75,334)
Income tax	13	**683**	388
Loss for the year from continuing operations		**(71,433)**	(74,946)
Discontinued operations:			
Loss for the year from discontinued operations	30	**(2,930)**	(2,428)
Loss for the year		**(74,363)**	(77,374)
Attributable to:			
Equity holders of the Company			
Continuing operations		**(70,488)**	(74,270)
Discontinued operations		**(2,930)**	(2,428)
		(73,418)	(76,698)
Non-controlling interests			
Continuing operations		**(945)**	(676)
		(74,363)	(77,374)
		HK Cents	HK Cents
Loss per share attributable to equity holders of the Company (expressed in HK cents per share)	16		
Basic and diluted — from continuing operations		**(2.26)**	(2.67)
Basic and diluted — from discontinued operations		**(0.09)**	(0.09)
Basic and diluted — from loss for the year		**(2.35)**	(2.76)
Dividend	14	**–**	–

The notes on pages 50 to 105 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2012 HK$'000	2011 HK$'000
Loss for the year	**(74,363)**	(77,374)
Other comprehensive income/(loss)		
Fair value gain on available-for-sale investment	**955**	–
Exchange differences arising from translation of foreign operations	**18,963**	(20,638)
Other comprehensive income/(loss) for the year, net of tax	**19,918**	(20,638)
Total comprehensive loss for the year	**(54,445)**	(98,012)
Attributable to:		
Equity holders of the Company	**(58,297)**	(90,367)
Non-controlling interests	**3,852**	(7,645)
Total comprehensive loss for the year	**(54,445)**	(98,012)
Total comprehensive loss attributable to equity holders of the Company arises from:		
Continuing operations	**(55,359)**	(88,615)
Discontinued operations	**(2,938)**	(1,752)
	(58,297)	(90,367)

The notes on pages 50 to 105 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 36(ii))	–	–	–	–	–	49,310	–	49,310	(49,310)	–
Issuance 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

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 2012	6,945	807,881	19,980	117,097	62,425	58,792	(389,274)	683,846	230,592	914,438
Comprehensive loss										
Loss for the year	–	–	–	–	–	–	(73,418)	(73,418)	(945)	(74,363)
Other comprehensive income										
Fair value gain on available-for-sale investment	–	–	–	–	–	955	–	955	–	955
Exchange differences arising from translation of foreign operations	–	–	–	–	14,166	–	–	14,166	4,797	18,963
Total other comprehensive income	–	–	–	–	14,166	955	–	15,121	4,797	19,918
Total comprehensive income/(loss) for the year	–	–	–	–	14,166	955	(73,418)	(58,297)	3,852	(54,445)
Transactions with shareholders										
Recognition of equity-settled share-based payments	–	–	–	17,884	–	–	–	17,884	–	17,884
Issuance of new shares for acquisition of warrants and subsidiaries (Note 31(ii))	1,131	82,563	–	–	–	(47,782)	–	35,912	120,145	156,057
Issuance of new shares (Note 31(iii))	385	22,204	–	–	–	–	–	22,589	–	22,589
Issuance of warrants (Note 32(ii))	–	–	–	–	–	125	–	125	–	125
Total transactions with shareholders	1,516	104,767	–	17,884	–	(47,657)	–	76,510	120,145	196,655
As at 31 December 2012	8,461	912,648	19,980	134,981	76,591	12,090	(462,692)	702,059	354,589	1,056,648

The notes on pages 50 to 105 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2012 HK$'000	2011 HK$'000
Operating activities			
Loss before taxation		(75,046)	(77,762)
Adjustments for:			
Finance income	11	(443)	(456)
Depreciation of plant and equipment	17	1,231	1,246
Loss on disposal of plant and equipment		–	104
Provision for amount due from a jointly-controlled entity	22	549	915
Share of profits less losses of a jointly-controlled entity	30	3,148	(1,205)
Share-based payments	10	17,884	30,725
Fair value changes on financial asset at fair value through profit or loss	26	(1,447)	1,256
Impairment loss of available-for-sale investment	23	–	484
Operating cash flow before movements in working capital		(54,124)	(44,693)
(Increase)/decrease in trade receivables		(2)	112
Decrease in deposits, prepayments and other receivables		246	747
Increase/(decrease) in other payables		9,694	(3,175)
Net cash used in operating activities		(44,186)	(47,009)
Investing activities			
Addition to oil and gas properties	18(i)	(396)	(37,127)
Addition to mining properties	18(ii)	(795)	–
Purchase of plant and equipment	17	(208)	(1,982)
Proceeds from disposal of plant and equipment		–	250
Bank interest received	11	11	8
Increase in deposit		–	(19,500)
Consideration paid for acquisition of subsidiaries net of bank balances and cash acquired	35	907	–
Net cash used in investing activities		(481)	(58,351)
Financing activities			
Proceeds from issuance of ordinary shares, net of issuance costs	31	22,589	–
Proceeds from exercise of share options		–	116
Proceeds from issuance of warrants	32	125	23
Net cash generated from financing activities		22,714	139
Net decrease in bank balances and cash		(21,953)	(105,221)
Bank balances and cash at beginning of year	27	48,906	155,800
Exchange gain/(loss) on bank balances and cash		582	(1,673)
Bank balances and cash of disposal group classified as held-for-sale	30(a)	(1,651)	–
Bank balances and cash at end of year	27	25,884	48,906

The notes on pages 50 to 105 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1 General information

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (Revised) of the Cayman Islands on 3 July 2002. The shares of the Company 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 2012, 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 27 March 2013.

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, financial asset at fair value through profit or loss and assets/liabilities of disposal group classified as held-for-sale. 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.

As at 31 December 2012, the Group's oil and gas properties amounted to approximately HK$1,134,704,000. The exploration period of the underlying coalbed methane production sharing contract ("**PSC**") has expired in February 2011. As at the date of approval of the consolidated financial statements, the Group is still in the process of formally extending the exploration period of the PSC. On the basis that the Directors believe that the exploration period will be extended, the consolidated financial statements do not include any adjustment on the carrying amount of the oil and gas properties of the Group as at 31 December 2012 that may result if the exploration period of the PSC is not extended (Note 4(a) and 18).

As at 31 December 2012, the Group's current liabilities exceeded its current assets by HK$19,639,000. Subsequent to the year-end 31 December 2012, the disposal transaction has been completed and a sales proceed of HK$61,425,000 has been received (Note 41(a)). Based on the Group's expected future working capital requirements, there are sufficient financial resources available to the Group to meet its obligations as and when they fall due. Accordingly, the financial statements of the Group have been prepared on a going concern basis.

Notes to the Consolidated Financial Statements

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.

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) Disposals of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies *(Continued)*

(a) Consolidation *(Continued)*

(iv) 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) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(c) 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.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies *(Continued)*

(d) 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:

— Land	Indefinite useful life
— Leasehold improvements	3 years or over the lease term, whichever is shorter
— Plant and machinery	5-8 years
— 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 gain/(loss), net" in the consolidated income statement.

(e) Exploration and evaluation assets

The Group's exploration and evaluation assets comprised of oil and gas properties and mining properties. All costs of acquisition of exploration for and evaluation of oil and gas and mining reserves are capitalised and accumulated on a field-by-field basis. Such costs include license and land acquisitions, geological and geophysical activity and exploratory drilling. Capitalisation is made until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development assets. No amortisation is charged on the exploration and evaluation assets during the exploration and evaluation phase.

Exploration and evaluation assets are tested for impairment when reclassified to development assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. Impairment of oil and gas properties and mining properties is assessed at each field within the oil exploration operating segment and marble mining operating segment levels, respectively.

(f) 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.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies *(Continued)*

(g) Impairment of non-financial assets other than exploration and evaluation assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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.

(h) Non-current assets held-for-sale and discontinued operations

Non-current assets are classified as held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), are stated at the lower of carrying amount and fair value less costs to sell. Assets, even if held-for-sale, would continue to be measured in accordance with the policies set out elsewhere in note 3.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the consolidated income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(i) 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. Assets in this category are classified as current assets.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies *(Continued)*

(i) Financial assets *(Continued)*

(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 assets. 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 gain/(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 gain/(loss), net".

(j) 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.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies *(Continued)*

(j) Impairment of financial assets *(Continued)*

(i) Assets carried at amortised cost *(Continued)*

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.

(k) Bank balances and cash

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

(l) 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.

(m) Other payables

Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Other payables 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).

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies *(Continued)*

(n) Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the 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.

(i) 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's 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.

(ii) 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.

(iii) 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.

(o) 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.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies *(Continued)*

(o) 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.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies *(Continued)*

(p) 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.

(q) 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.

(r) 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 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.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies *(Continued)*

(r) Foreign currency translation *(Continued)*

(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.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in jointly controlled entities that do not result in the Group losing joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

(s) 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.

Notes to the Consolidated Financial Statements

3 Summary of significant accounting policies *(Continued)*

(t) Application of new and revised HKFRSs

(i) Amended standard adopted by the Group

The HKICPA has amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012.

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 2012 but not currently relevant to the Group

HKFRS 1 (Amendment)	First time adoption
HKFRS 7 (Amendment)	Financial instruments: Disclosures — Transfer of financial assets

(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[1]
HKAS 19 (2011)	Employee benefits[2]
HKAS 27 (2011)	Separate financial statements[2]
HKAS 28 (2011)	Investments in associates and joint ventures[2]
HKAS 32 (Amendment)	Financial instruments: Presentation — Offsetting financial assets and financial liabilities[3]
HKFRS 1 (Amendment)	Government loans[2]
HKFRS 7 (Amendment)	Financial instruments: Disclosures — Offsetting financial assets and financial liabilities[2]
HKFRS 9	Financial instruments[4]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interest in other entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statement, joint arrangements and disclosure of interest in other entities: Transition Guidance[2]
HK(IFRIC)-Int 20	Stripping costs in the production phase of a surface mine[2]

Notes:

(1) Effective for annual periods beginning on or after 1 July 2012
(2) Effective for annual periods beginning on or after 1 January 2013
(3) Effective for annual periods beginning on or after 1 January 2014
(4) 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.

With respect to HKFRS 10, management anticipates that the adoption of HKFRS 10 will not have a material impact on the results and financial position of the Group.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgments

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) Impairment assessment of oil and gas exploration and evaluation properties

Exploration and evaluation assets are assessed for impairment only when facts and circumstances indicate that their carrying amount may exceed its recoverable amount. 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 facts and circumstances that indicates 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 has to be performed as at any given balance sheet date.

For the oil and gas exploration and evaluation properties of TerraWest Energy Corp. ("**TWE**"), the Group has considered the following factors when assessing whether an impairment indicator existed at 31 December 2012:

(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) While the exploration phase of TWE's production sharing contract ("**PSC**") has expired in February 2011, the Group has continuous discussion with China National Petroleum Corporation ("**CNPC**") regarding the extension and there are ongoing exploration activities being carried out at the acknowledgement of CNPC;

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

(vi) 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.

As mentioned above and further discussed in Note 18, the exploration phase of TWE's PSC has expired in February 2011 and the Group is currently in the process of extending the exploration period. While there is an uncertainty as to when the exploration period of the PSC will be extended, after considering the factors above, management concluded that such extension is expected.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgments *(Continued)*

(b) 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. Estimates relating to the evaluation of share options are discussed in Note 33(c).

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 solely of equity attributable to equity holders of the Company, comprising issued share capital and reserves. Capital as at 31 December 2012 amounted to HK$702,059,000 (2011: HK$683,846,000).

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.

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

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, 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), 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.

Notes to the Consolidated Financial Statements

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

(a) Financial risk factors *(Continued)*

(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	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Loans and receivables		
Bank balances and cash	**1,006**	922
Deposits and other receivables	**606**	167
Available-for-sale investment	**1,484**	529
Financial asset at fair value through profit or loss	**3,321**	1,874
	6,417	3,492
Financial liabilities		
Amortised cost		
Other payables	**4,337**	13,498
Other payables of disposal group classified as held-for-sale (Note 30)	**14,052**	–
	18,389	13,498

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

At 31 December 2012, 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$1,816,000 (2011: HK$1,333,000) higher/lower and HK$618,000 (2011: HK$332,000) lower/higher respectively.

(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 the 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 2012 would decrease/increase by approximately HK$204,000 (2011: approximately HK$441,000).

Notes to the Consolidated Financial Statements

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

(a) Financial risk factors *(Continued)*

(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 not significant.

(iv) 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.

(v) 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 undiscounted cash flows equal their carrying value, as the impact of discounting is not significant.

In order to fund the development of the Group's TWE project and the marble business, 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.

Notes to the Consolidated Financial Statements

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 that are measured at fair value:

As at 31 December 2012

	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	**–**	**–**	**3,321**	**3,321**
Available-for-sale investment	**1,484**	**–**	**–**	**1,484**

As at 31 December 2011 (Restated)

	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

There were no transfers of financial assets between Level 1 to Level 2 fair value hierarchy classification.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2012 and 2011.

	2012 HK$'000	2011 HK$'000
Opening balance	**1,874**	3,130
Gain/(loss) recognised in profit or loss	**1,447**	(1,256)
Closing balance	**3,321**	1,874
Total gain/(loss) for the year included in profit or loss for assets held at the end of the year	**1,447**	(1,256)

Notes to the Consolidated Financial Statements

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

(b) Fair value estimation *(Continued)*

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.

(c) Categories of financial instruments

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Financial assets		
Loans and receivables		
Trade receivables	**2**	–
Deposits and other receivables	**2,764**	20,638
Bank balances and cash	**25,884**	48,906
Bank balances and cash of disposal group classified as held-for-sale (Note 30)	**1,651**	–
Financial asset at fair value through profit or loss	**3,321**	1,874
Available-for-sale investment	**1,484**	529
	35,106	71,947
Financial liabilities		
Amortised cost		
Other payables	**32,997**	27,512
Other payables of disposal group classified as held-for-sale (Note 30)	**20,305**	–
	53,302	27,512

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 financial liabilities are carried at amortised cost.

Notes to the Consolidated Financial Statements

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) GM — Marble rock mining in Indonesia

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

(iv) 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.

Notes to the Consolidated Financial Statements

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:

	Continuing operations				Discontinued operations		
	Information technology related services in Hong Kong HK$'000	Gas exploration in TWE HK$'000	Marble rock mining in Indonesia HK$'000	Subtotal HK$'000	Oil exploration in Qian An HK$'000	Inter-segment transaction HK$'000	Consolidated HK$'000
For the year ended 31 December 2012							
Segment revenue	69	–	–	69	–	–	69
Gross profit	34	–	–	34	–	–	34
Other gain/(loss), net	–	–	–	–	2,574	(2,574)	–
Administrative and operating expenses	(2,608)	(2,280)	(1,892)	(6,780)	(2,357)	–	(9,137)
Finance income	–	–	–	–	1	–	1
Share of profits less losses of a jointly-controlled entity	–	–	–	–	(3,148)	–	(3,148)
Income tax	–	683	–	683	–	–	683
Segment results	(2,574)	(1,597)	(1,892)	(6,063)	(2,930)	(2,574)	(11,567)
Unallocated:							
Other gain, net							1,597
Administrative and operating expenses							(64,835)
Finance income							442
Loss before taxation							(74,363)
Income tax							–
Loss for the year							(74,363)
As at 31 December 2012							
Segment assets	2,337	1,140,733	184,205	1,327,275	1,711	–	1,328,986
Unallocated assets							28,890
Total assets							1,357,876
Segment liabilities	602	259,064	1,352	261,018	20,305	–	281,323
Unallocated liabilities							19,905
Total liabilities							301,228

Notes to the Consolidated Financial Statements

7 Segment information *(Continued)*

	Information technology related services in Hong Kong HK$'000	Gas exploration in TWE HK$'000	Marble rock mining in Indonesia HK$'000	Oil exploration in Qian An HK$'000	Unallocated HK$'000	Consolidated HK$'000
For the year ended 31 December 2012						
Capital expenditures	–	8,090	851	–	152	9,093

	Continuing operations			Discontinued operations	
	Information technology related services in Hong Kong	Gas exploration in TWE	Subtotal	Oil exploration in Qian An (Restated)	Consolidated (Restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31 December 2011					
Segment revenue	164	–	164	–	164
Gross profit	41	–	41	–	41
Administrative and operating expenses	(1,809)	(2,065)	(3,874)	(3,635)	(7,509)
Finance income	–	–	–	2	2
Share of profits less losses of a jointly-controlled entity	–	–	–	1,205	1,205
Income tax	–	388	388	–	388
Segment results	(1,768)	(1,677)	(3,445)	(2,428)	(5,873)
Unallocated:					
Other loss, net					(1,753)
Administrative and operating expenses					(70,202)
Finance income					454
Loss before taxation					(77,374)
Income tax					–
Loss for the year					(77,374)
As at 31 December 2011					
Segment assets	1,065	1,104,385	1,105,450	6,046	1,111,496
Unallocated assets					74,057
Total assets					1,185,553
Segment liabilities	489	246,757	247,246	21,871	269,117
Unallocated liabilities					1,998
Total liabilities					271,115

Notes to the Consolidated Financial Statements

7 Segment information *(Continued)*

	Information technology related services in Hong Kong HK$'000	Gas exploration in TWE HK$'000	Oil exploration in Qian An HK$'000	Unallocated HK$'000	Consolidated HK$'000
For the year ended 31 December 2011					
Capital expenditures	6	20,966	–	1,976	22,948

The Group's revenue for both the year ended 31 December 2012 and 2011 is solely derived from its information technology related services segment in Hong Kong.

The Group's non-current assets other than available-for-sale investment as at 31 December 2012 and 2011 are further analysed as follows:

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Hong Kong (place of domicile)	**4,862**	24,802
China	**1,134,715**	1,107,347
Indonesia	**182,959**	–
	1,322,536	1,132,149

Notes to the Consolidated Financial Statements

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 2012 HK$'000	2011 HK$'000
Continuing operations:		
Sale of computer software	**21**	40
Network infrastructure maintenance and sale of computer hardware	**48**	124
	69	164

9 Other gain/(loss), net

	Year ended 31 December 2012 HK$'000	2011 HK$'000
Continuing operations:		
Fair value gain/(loss) on financial asset at fair value through profit or loss (Note 26)	**1,447**	(1,256)
Impairment loss of available-for-sale investment	**–**	(484)
Loss on disposal of plant and equipment	**–**	(104)
Others	**150**	91
	1,597	(1,753)

Notes to the Consolidated Financial Statements

10 Loss before taxation

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

	Continuing operations		Discontinued operations		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2012	2011	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost of inventories sold	19	36	–	–	19	36
Depreciation of plant and equipment	1,226	1,236	5	10	1,231	1,246
Auditor's remuneration						
— Current year	1,730	1,400	20	50	1,750	1,450
— (Over)/under-provision in prior year	(53)	165	–	–	(53)	165
Operating lease payments	3,979	3,391	–	–	3,979	3,391
Legal and professional fees	5,090	876	23	–	5,113	876
Investor relations expenses						
— Cash payments	721	1,557	–	–	721	1,557
— Share-based payments	9,722	19,449	–	–	9,722	19,449
Technical consultancy expenses						
— Share-based payments	4,892	6,856	–	–	4,892	6,856
Staff costs, including directors' emoluments (Note 12)						
— Salaries, allowances and other benefits	24,281	24,015	1,221	1,265	25,502	25,280
— Retirement benefit scheme contributions	171	140	14	12	185	152
— Share-based payments	3,270	4,420	–	–	3,270	4,420
— Discretionary and performance related incentive payments	5,787	5,410	–	139	5,787	5,549
Provision for impairment of amount due from a jointly-controlled entity	–	–	549	915	549	915
Exchange loss/(gain), net	1,922	(1,859)	287	904	2,209	(955)

Notes to the Consolidated Financial Statements

11 Finance income

	Continuing operations		Discontinued operations		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2012	2011	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Interest income from financial asset at fair value through profit or loss	432	448	–	–	432	448
Bank interest income	10	6	1	2	11	8
	442	454	1	2	443	456

12 Directors' and senior management's emoluments

Directors' emoluments for the year ended 31 December 2012 and 2011, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

For the year ended 31 December 2012	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 (CEO)	–	10,822	14	910	4,500	16,246
Dr. Arthur Ross Gorrell	–	192	–	116	–	308
Independent non-executive Directors						
Mr. David Tsoi	150	–	–	67	35	252
Mr. Lo Chi Kit	150	–	–	41	25	216
Mr. Tam Hang Chuen	150	–	–	24	25	199
Total	450	11,014	14	1,158	4,585	17,221

Notes to the Consolidated Financial Statements

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

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 (CEO)	–	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

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 2012, 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 (2011: Nil).

For the year ended 31 December 2012, there was no arrangement under which the Directors waived or agreed to waive any emoluments (2011: Nil).

During the year ended 31 December 2012, one (2011: 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 (2011: four) individuals are as follows:

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and other benefits	**8,598**	7,419
Retirement benefit scheme contributions	**41**	48
Share-based payments	**2,062**	3,421
Discretionary and performance related incentive payments	**908**	660
	11,609	11,548

Notes to the Consolidated Financial Statements

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

The emoluments were within the following bands:

	Number of employees Year ended 31 December	
	2012	2011
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**1**	1
	4	4

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 2012 (2011: 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 2012 (2011: Nil).

Corporate Income Tax has not been provided for the subsidiaries in Indonesia as they did not generate any assessable profits during the year ended 31 December 2012 (2011: Nil).

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Deferred income tax	**683**	388

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 TWE's deferred tax liability arising from the business combination in 2008, under the Income Tax Act (Canada).

Notes to the Consolidated Financial Statements

13 Income tax *(Continued)*

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:

	Continuing operations		Discontinued operations		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Loss before taxation	**(72,116)**	(75,334)	**(2,930)**	(2,428)	**(75,046)**	(77,762)
Tax at the domestic income tax rate of 16.5% (2011: 16.5%)	**11,899**	12,430	**484**	401	**12,383**	12,831
Effect of different tax rates of subsidiaries operating in other jurisdictions	**395**	132	**49**	126	**444**	258
Tax effect of:						
— income not subject to tax	**–**	1	**–**	–	**–**	1
— expenses not deductible	**(10,157)**	(11,771)	**(387)**	(93)	**(10,544)**	(11,864)
— tax losses for which no deferred income tax asset was recognised	**(1,341)**	(177)	**(146)**	(434)	**(1,487)**	(611)
— expiry of tax losses previously recognised	**(113)**	(227)	**–**	–	**(113)**	(227)
Income tax	**683**	388	**–**	–	**683**	388

The Group has unrecognised deferred tax assets from estimated tax losses of approximately HK$6,477,000 (2011: HK$4,778,000) 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$1,059,000 (2011: HK$1,120,000) 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$3,965,000 (2011: HK$3,431,000) that has no expiry date. During the year ended 31 December 2012, previously recognised tax losses amounting to approximately HK$113,000 (2011: HK$227,000) have expired.

There is no tax impact relating to components of other comprehensive loss for the year ended 31 December 2012 (2011: Nil).

14 Dividend

No dividend was paid or proposed for the year ended 31 December 2012 (2011: Nil).

Notes to the Consolidated Financial Statements

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$73,825,000 (2011: HK$76,566,000).

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 2012 and 2011.

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	
	2012	2011
Loss attributable to equity holders of the Company for the purpose of basic loss per share (HK$'000)		
— Continuing operations	**(70,488)**	(74,270)
— Discontinued operations	**(2,930)**	(2,428)
Weighted average number of ordinary shares for the purpose of basic loss per share ('000)	**3,123,367**	2,777,674
Basic loss per share (in HK cents)		
— Continuing operations	**(2.26)**	(2.67)
— Discontinued operations	**(0.09)**	(0.09)

(b) The Group had share options and warrants outstanding as at 31 December 2011 and 31 December 2012. The share options and warrants did not have a dilutive effect on loss per share (2011: anti-dilutive).

Notes to the Consolidated Financial Statements

17 Plant and equipment

Group	Land	Leasehold improvements	Plant and machinery	Computer equipment and software	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011								
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
Year ended 31 December 2012								
Opening net book amount	–	73	–	137	134	50	2,222	2,616
Exchange differences	–	–	–	2	–	–	–	2
Additions	–	–	2	68	2	45	91	208
Additions acquired in acquisition of subsidiaries (Note 35)	932	–	96	–	–	263	122	1,413
Transfers to assets of disposal group classified as held-for-sale (Note 30)	–	–	–	–	(3)	–	–	(3)
Depreciation charge	–	(34)	(12)	(72)	(92)	(62)	(959)	(1,231)
Closing net book amount	**932**	**39**	**86**	**135**	**41**	**296**	**1,476**	**3,005**
At 31 December 2012								
Cost	932	1,239	98	1,145	507	520	5,150	9,591
Accumulated depreciation	–	(1,200)	(12)	(1,010)	(466)	(224)	(3,674)	(6,586)
Net book amount	**932**	**39**	**86**	**135**	**41**	**296**	**1,476**	**3,005**

Notes to the Consolidated Financial Statements

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 2011						
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
Year ended 31 December 2012						
Opening net book amount	73	56	120	25	599	873
Additions	–	31	2	28	–	61
Depreciation charge	(34)	(28)	(81)	(10)	(156)	(309)
Closing net book amount	**39**	**59**	**41**	**43**	**443**	**625**
At 31 December 2012						
Cost	1,099	237	424	92	625	2,477
Accumulated depreciation	(1,060)	(178)	(383)	(49)	(182)	(1,852)
Net book amount	**39**	**59**	**41**	**43**	**443**	**625**

Notes to the Consolidated Financial Statements

18 Exploration and evaluation assets — Group

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Oil and gas properties (Note i)	1,134,704	1,103,650
Mining properties (Note ii)	181,553	–
	1,316,257	1,103,650

Notes:

(i) Movement of the oil and gas properties is as follows:

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
At cost		
At beginning of the year	1,103,650	1,107,078
Additions	8,090	20,966
Exchange differences	22,964	(24,394)
At end of the year	1,134,704	1,103,650

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.

During 2012, HK$396,000 of oil and gas properties (2011: HK$19,429,000) have been settled by cash and HK$7,694,000 of oil and gas properties (2011: HK$1,537,000) have not yet been settled and are included in other payables. All expenditures in relation to oil and gas properties were capitalised and there is no operating cash flow for the year ended 31 December 2012 (2011: Nil).

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 of exploration period to be agreed with CNPC and subject to approval by the MOC. As at the date of approval of the consolidated financial statements, the Group is in the process of discussing the terms of the extension with CNPC and approval from the MOC is not yet available. The Group has obtained legal opinion from its PRC legal counsel that there is no material legal impediment in extending the exploration period of the PSC. In addition, the Group continues its exploration activities in the CBM project so far up to the date of approval of these consolidated financial statements and the Group incurred additional expenditure of HK$8,090,000 in the drilling of wells and mud logging during the year ended 31 December 2012 at the acknowledgement of CNPC.

Notes to the Consolidated Financial Statements

18 Exploration and evaluation assets — Group *(Continued)*

Notes: (Continued)

(i) (Continued)

Based on the above, the Company's Directors consider that while the exploration period has expired, there is no impairment indicator relating to the oil and gas properties as at 31 December 2012. There is, however, uncertainty as to when the MOC of the PRC will approve the extension of the exploration period and changes in terms of the PSC may be required in conjunction with their approval of any extension of the exploration period of the PSC. The consolidated financial statements do not include any adjustment on the carrying amount of the oil and gas properties of the Group as at 31 December 2012 that may result if the exploration period of the PSC is not extended.

(ii) Movement of the mining properties is as follows:

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
At cost		
At beginning of the year	**–**	–
Acquisition (Note 35)	**180,758**	–
Additions	**795**	–
At end of the year	**181,553**	–

During 2012, HK$795,000 (2011: Nil) of mining properties have been settled by cash and HK$180,758,000 of mining properties have been acquired via acquisition of subsidiaries (Note 35). All expenditures in relation to mining properties were capitalised and there is no operating cash flow for the year ended 31 December 2012 (2011: Nil).

19 Investments in subsidiaries — Company

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**372,680**	372,680
Less: Provision for impairment loss	**(372,680)**	(372,680)
	–	–

Notes to the Consolidated Financial Statements

19 Investments in subsidiaries — Company *(Continued)*

Details of the principal subsidiaries held by the Company as at 31 December 2012 are as follows:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities and place of operation
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	RMB12,155,800	–	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[a]	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
PT. Bara Hugo Energy ("**BHE**") (Note 35)	Indonesia, limited liability company	600,000 Ordinary shares of 9,052 Indonesian Rupiah ("**IDR**") each	–	90.3	Investment holding in Indonesia
PT. Grasada Multinational ("**GM**") (Note 35)	Indonesia, limited liability company	24,000,000 Ordinary shares of 100 IDR each	–	33.8[b]	Marble rock mining in Indonesia

Wholly-owned foreign enterprise established in the PRC.

Notes to the Consolidated Financial Statements

19 Investments in subsidiaries — Company *(Continued)*

(a) Common shares, preferred shares and warrants in TWE

TWE has 220,000,000 outstanding warrants as at 31 December 2012 (2011: 220,000,000 warrants) and 8,000,000 outstanding preferred shares (2011: 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% (2011: 82.92%) 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 2012 '000	As at 31 December 2011 '000	**As at 31 December 2012 '000**	As at 31 December 2011 '000	**As at 31 December 2012 '000**	As at 31 December 2011 '000
Issued and outstanding:						
At the beginning of year						
Common shares and preferred shares with no par value	**324,334**	261,334	**8,000**	8,000	**220,000**	134,000
Issuance of new shares and warrants (i)	**–**	63,000	**–**	–	**–**	126,000
Lapse of warrants (ii)	**–**	–	**–**	–	**–**	(40,000)
As at end of year	**324,334**	324,334	**8,000**	8,000	**220,000**	220,000
Number of common shares, preferred shares and warrants owned by the Group as at end of the year	**238,000**	238,000	**–**	–	**220,000**	220,000

Notes:

(i) 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 36(ii)).

(ii) On 17 August 2011, 40,000,000 A warrants with an exercise price of CAD0.10 expired.

(iii) On 11 July 2012, TWE and Aces Diamond signed a supplemental letter to TWE Subscription Agreement and the Subscription Agreement (Note (i)) to, among others, extend the exercise period of 40,000,000 B warrants and 27,000,000 C warrants to on or before 17 August 2015 and 29 July 2015, respectively.

Notes to the Consolidated Financial Statements

19 Investments in subsidiaries — Company *(Continued)*

(a) 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 2012 and 2011	Exercise price (CAD per share) at 31 December 2012 and 2011
B Warrant	40,000	0.15
C Warrant	90,000	0.07
D Warrant	90,000	0.10
	220,000	

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.

(b) Ordinary shares and warrants in PT. Grasada Multinational

GM was acquired on 15 May 2012 through acquisition of subsidiaries (Note 35).

GM has 13,500,000 outstanding warrants as at 31 December 2012 (2011: Nil) which are currently exercisable. Assuming the full conversion of all outstanding warrants of GM, the Group would hold approximately 54.15% (2011: Nil) controlling interest of the enlarged capital and have control over the financial and operating decisions of GM. Accordingly, the Group consolidates its interest in GM as a subsidiary.

	Number of ordinary shares with par value		Number of warrants	
	As at 31 December 2012 '000	As at 31 December 2011 '000	**As at 31 December 2012 '000**	As at 31 December 2011 '000
Issued and outstanding:				
At the beginning of year				
Ordinary shares with par value	**–**	–	**–**	–
Ordinary shares acquired in acquisition of subsidiaries (Note 35)	**24,000**	–	**–**	–
Warrants acquired in acquisition of subsidiaries (Note 35)	**–**	–	**13,500**	–
As at end of the year	**24,000**	–	**13,500**	–
Number of ordinary shares and warrants owned by the Group as at end of the year	**9,000**	–	**13,500**	–

Notes to the Consolidated Financial Statements

19 Investments in subsidiaries — Company *(Continued)*

(b) Ordinary shares and warrants in PT. Grasada Multinational *(Continued)*

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

	Expiration of warrants	Outstanding ('000) at 31 December		Exercise price (IDR per share) at 31 December	
		2012	2011	**2012**	2011
A Warrant	3 months after commencement of marble production	**2,250**	–	**444**	–
A Warrant	3 months after commencement of marble production	**2,250**	–	**888**	–
B Warrant	6 months after commencement of marble production	**2,250**	–	**888**	–
B Warrant	6 months after commencement of marble production	**2,250**	–	**1,333**	–
C Warrant	12 months after commencement of marble production	**4,500**	–	**1,779**	–
		13,500	–		

20 Amounts due from subsidiaries — Company

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Cost	**322,934**	238,736
Less: Provision for impairment	**(77,784)**	(80,434)
	245,150	158,302

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

21 Interest in a jointly-controlled entity — Group

	As at 31 December	
	2012	2011
	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	**(10,851)**	(7,168)
Less: Impairment losses recognised	**(287,550)**	(287,550)
	–	3,683

Notes to the Consolidated Financial Statements

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 31 December 2012.

As at 31 December 2012, the Board of Directors of the Company decided to dispose of its equity interest in Qian An. The interest in a jointly-controlled entity is classified as assets of disposal group classified as held-for-sale (Note 30).

The Group's share of the assets and liabilities of its jointly-controlled entity is as follows:

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Assets		
Non-current assets	**25,632**	29,153
Current assets	**10,007**	9,340
	35,639	38,493
Liabilities		
Current liabilities	**(36,557)**	(34,457)
Non-current liabilities	**(354)**	(353)
	(36,911)	(34,810)
Net (liabilities)/assets (Note)	**(1,272)**	3,683

Note:

As at 31 December 2012, the Group's share of the assets and liabilities of its jointly-controlled entity is nil since the Group has discontinued recognising its share of losses as the losses have exceeded the Group's carrying amount of investment. The unrecognised share of loss for the year was HK$1,272,000 (2011: nil).

As at 31 December 2012, 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 (2011: Nil).

Notes to the Consolidated Financial Statements

22 Amount due from a jointly-controlled entity

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Amount due from a jointly-controlled entity	**22,629**	21,963
Less: Provision for impairment	**(22,629)**	(21,963)
	–	–

The Group carried out an assessment on the recoverability of amount due from a jointly-controlled entity as at 31 December 2012. 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 2012, the jointly-controlled entity has declared a dividend of approximately HK$549,000 (2011: HK$915,000) to the Group. The Group has carried out an assessment on the recoverability of this dividend receivable as at 31 December 2012. 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.

As at 31 December 2012, the Board of Directors of the Company decided to dispose of its equity interest in Qian An. The amount due from a jointly-controlled entity is classified as assets of disposal group classified as held-for-sale (Note 30).

23 Available-for-sale investment — Group and Company

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
At beginning of the year	**529**	1,013
Fair value change	**955**	–
Impairment loss of available-for-sale investment	**–**	(484)
At end of the year	**1,484**	529

Available-for-sale investment comprises:

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Listed securities, reporting as non-current assets:		
— Equity securities — listed overseas	**1,484**	529

The equity securities represented approximately 2.6% (2011: 3%) equity interests in Petromin Resources Ltd ("**Petromin**"), a related company of the Group (Note 37(a)).

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

Notes to the Consolidated Financial Statements

24 Trade receivables — Group

	As at 31 December 2012 HK$'000	2011 HK$'000
Trade receivables	2	–

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 2012 HK$'000	2011 HK$'000
Within 30 days	1	–
Over 60 days	1	–
	2	–

As at 31 December 2012, trade receivables of HK$1,000 were past due but not impaired. These relate to an independent customer for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December 2012 HK$'000	2011 HK$'000
Over 60 days	1	–
	1	–

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

	As at 31 December 2012 HK$'000	2011 HK$'000
HK$	1	–
US$	1	–
	2	–

Notes to the Consolidated Financial Statements

25 Deposits, prepayments and other receivables

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Deposits (Note)	**574**	19,500	**319**	–
	574	19,500	**319**	–
Current				
Deposits	**400**	551	**5**	360
Prepayments	**748**	957	**589**	562
Other receivables	**1,790**	587	**340**	190
	2,938	2,095	**934**	1,112
Total deposits, prepayments and other receivables	**3,512**	21,595	**1,253**	1,112

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$2,500,000 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 15 May 2012, upon the completion of the above investment transaction, the refundable deposit was used to acquire Hugo Link Global Investments Limited and its subsidiaries (Note 35).

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 4.7% (2011: 5.4%) of the outstanding common shares of Petromin as of 31 December 2012.

Change in fair value of financial asset through profit or loss amounted to HK$1,447,000 (2011: HK$1,256,000) was recorded in "Other gain/(loss), net" in the consolidated income statement.

Notes to the Consolidated Financial Statements

27 Bank balances and cash

	Group As at 31 December		Company As at 31 December	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Cash at banks and in hand	25,884	48,906	14,919	42,462

28 Other payables — Group

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Other payables	10,085	23,917
Consideration payable (Note 35)	7,800	–
Accrued liabilities	15,305	3,839
	33,190	27,756

29 Deferred income tax — Group

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 (Note) Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
At beginning of the year	248,265	253,701
Exchange differences	5,158	(5,436)
At end of the year	253,423	248,265

Note:

Deferred tax liabilities arose from the difference between the carrying value of oil and gas properties and their tax bases.

Notes to the Consolidated Financial Statements

29 Deferred income tax — Group *(Continued)*

Deferred tax assets

	Tax losses	
	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
At beginning of the year	**4,906**	4,618
Exchange differences	**101**	(100)
Credited to consolidated income statement (Note 13)	**683**	388
At end of the year	**5,690**	4,906

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	
	2012	2011
	HK$'000	HK$'000
Deferred tax liabilities	**253,423**	248,265
Deferred tax assets	**(5,690)**	(4,906)
	247,733	243,359

Deferred tax assets and liabilities of the Group are expected to be recovered after more than 12 months.

Notes to the Consolidated Financial Statements

30 Assets/(liabilities) held-for-sale and discontinued operations — Group

On 18 October 2012, the Board of Directors of the Company decided to sell 50% equity interest in Qian An, an equity joint venture company established in China (exploration, development and production of petroleum segment). The transaction was completed on 11 March 2013 (Note 41(a)).

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Operating cash outflows	**(642)**	(1,719)

(a) Assets of disposal group classified as held-for-sale

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Plant and equipment	**3**	–
Interest in a jointly-controlled entity (Note 21)	**–**	–
Amount due from a jointly-controlled entity (Note 22)	**–**	–
Deposits, prepayments and other receivables	**57**	–
Bank balances and cash	**1,651**	–
Total	**1,711**	–

(b) Liabilities of disposal group classified as held-for-sale

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Other payables	**20,305**	–

Notes to the Consolidated Financial Statements

30 Assets/(liabilities) held-for-sale and discontinued operations — Group *(Continued)*

(c) Cumulative income recognised in other comprehensive income related to disposal group classified as held-for-sale

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Translation reserve	**540**	–

Analysis of the result of discontinued operations of assets or disposal group is as follows:

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Other gain	**2,574**	–
Administrative and operating expenses	**(2,357)**	(3,635)
Finance income	**1**	2
Share of profits less losses of a jointly-controlled entity	**(3,148)**	1,205
Loss for the year from discontinued operations	**(2,930)**	(2,428)

The share of profits less losses of a jointly-controlled entity is as follows:

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Share of revenue	**33,119**	42,718
Share of profits less losses	**(3,148)**	1,205

During the year ended 31 December 2012, the Group has discontinued recognising its share of losses as the losses have exceeded the Group's carrying amount of the investment. The unrecognised share of loss for the year was HK$1,272,000 (2011: nil).

Notes to the Consolidated Financial Statements

31 Share capital

	Number of ordinary shares Year ended 31 December		Nominal value Year ended 31 December	
	2012	2011	2012	2011
	'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	2,777,959	2,777,459	6,945	6,944
Issuance of new shares upon exercise of share options on 28 July 2011 (Note (i))	–	500	–	1
Issuance of new shares for acquisition of subsidiaries (Note (ii))	452,400	–	1,131	–
Issuance of new shares (Note (iii))	154,000	–	385	–
As end of the year Ordinary share of HK$0.0025 each	3,384,359	2,777,959	8,461	6,945

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) The Company issued 452,400,000 ordinary shares (the "**Consideration Shares**") on 15 May 2012 to the sole shareholder of Hugo Link Global Investments Limited ("**Hugo Link**") as part of the purchase consideration for 95% of issued share capital of Hugo Link. The Consideration Shares rank pari passu with the existing shares in all respects except that the Consideration Shares are restricted to be transferred, sold, lent, charged, and mortgaged within 12 months from 15 May 2012. The fair value of the Consideration Shares, determined using the published closing price on 15 May 2012, amounted to approximately HK$83,694,000 at HK$0.185 each.

(iii) On 10 August 2012, the Company has completed a share placement to raise HK$23,408,000 by issuing 154,000,000 ordinary shares at a price of HK$0.152 per share. After deducting the costs and expenses in connection with the placing amounting to HK$819,000, the net proceeds from issue of ordinary shares is HK$22,589,000.

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

Notes to the Consolidated Financial Statements

32 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 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
Issuance 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
As at 1 January 2012	**807,881**	**871**	**–**	**117,097**	**23**	**(732,111)**	**193,761**
Comprehensive loss							
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(73,825)**	**(73,825)**
Other comprehensive income							
Fair value gain on available-for-sale investment	**–**	**–**	**955**	**–**	**–**	**–**	**955**
Total comprehensive loss	**–**	**–**	**955**	**–**	**–**	**(73,825)**	**(72,870)**
Transactions with shareholders							
Recognition of equity settled share-based payments	**–**	**–**	**–**	**17,884**	**–**	**–**	**17,884**
Issuance of new shares for acquisition of subsidiaries (Note 31(ii))	**82,563**	**–**	**–**	**–**	**–**	**–**	**82,563**
Issuance of new shares (Note 31(iii))	**22,204**	**–**	**–**	**–**	**–**	**–**	**22,204**
Issuance of warrants (Note (ii))	**–**	**–**	**–**	**–**	**125**	**–**	**125**
Total transactions with shareholders	**104,767**	**–**	**–**	**17,884**	**125**	**–**	**122,776**
As at 31 December 2012	**912,648**	**871**	**955**	**134,981**	**148**	**(805,936)**	**243,667**

Notes to the Consolidated Financial Statements

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

Notes:

(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 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.

(ii) In August 2012, the Company has entered into an agreement with an independent third party whereby the Company agreed to issue and the independent third party agreed to subscribe for 50,000,000 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.

33 Share option schemes

(a) On 25 January 2003 and 12 May 2011, share option schemes ("**2003 Share Option Scheme**" and "**2011 Share Option Scheme**", respectively) were approved and adopted pursuant to resolutions of the Company. The purpose of the 2003 Share Option Scheme and 2011 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 2003 Share Option Scheme and 2011 Share Option Scheme remain in force for a period of ten years with effect from 25 January 2003 and 12 May 2011, respectively.

The maximum number of shares in respect of which share options may be granted under the 2003 Share Option Scheme and 2011 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 2003 Share Option Scheme and 2011 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 2003 Share Option Scheme and 2011 Share Option Scheme.

Notes to the Consolidated Financial Statements

33 Share option schemes *(Continued)*

(b) Movements in the number of share options outstanding and their weighted average exercise prices for the year ended 31 December 2012 are as follows:

	Weighted average exercise price (per share) HK$	Outstanding Options
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
As at 1 January 2012	**0.68**	**299,557,200**
Granted	**0.16**	**36,950,000**
Forfeited	**0.44**	**(50,000)**
As at 31 December 2012	**0.63**	**336,457,200**
Exercisable as at 31 December 2012	**0.76**	**206,317,200**

Share options outstanding as at 31 December 2012 and 2011 have the following expiry dates and exercise prices:

Expiry date	Exercise price (per share) HK$	Outstanding options as at 31 December 2012
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**
15 June 2019 (Note 2)	**0.73**	**29,480,000**
6 October 2019 (Note 2)	**0.75**	**410,000**
4 February 2020 (Note 2)	**0.51**	**57,480,000**
8 July 2020 (Note 3)	**0.56**	**79,000,000**
22 June 2021 (Note 4)	**0.44**	**49,900,000**
30 December 2022 (Note 4)	**0.16**	**36,950,000**
		336,457,200

Notes to the Consolidated Financial Statements

33 Share option schemes *(Continued)*

(b) *(Continued)*

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
15 June 2019 (Note 2)	0.73	29,480,000
6 October 2019 (Note 2)	0.75	410,000
4 February 2020 (Note 2)	0.51	57,480,000
8 July 2020 (Note 3)	0.56	79,000,000
22 June 2021 (Note 4)	0.44	49,950,000
		299,557,200

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 and 4 February 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 9 July 2010, 50% of which 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. 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 date falling one day preceding the tenth anniversary from the date of grant.

(4) Regarding the share options granted on 23 June 2011 and 31 December 2012, 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 2012, share options for subscribing 36,950,000 shares of the Company were granted for a total consideration of HK$21. The aggregate share-based payment expense of HK$3,270,000 (2011: HK$4,420,000) 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$14,614,000 (2011: HK$26,305,000), of which HK$9,722,000 (2011: HK$19,449,000) was recorded as investor relations expenses and HK$4,892,000 (2011: HK$6,856,000) was recorded as technical consultancy expenses, in the consolidated income statement.

The fair value of the services received by the Group is measured by the reference to the fair value of the share options granted as consideration because the fair value of the services cannot be measured reliably .

Notes to the Consolidated Financial Statements

33 Share option schemes *(Continued)*

(b) *(Continued)*

No options were exercised during the year (2011: 500,000). 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.

Subsequent to 31 December 2012 and up to the date of this report, 15,847,200 and 15,840,000 options were exercised at HK$0.06 per share and HK$0.11 per share, respectively.

(c) The fair values of the share options granted during the year ended 31 December 2012 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
31 December 2012	Nil	70.30%	0.60%	HK$0.163

(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 2012 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 2012 had a weighted average remaining contractual life of 6.08 years (2011: 6.60 years). The weighted average fair value of options granted during the period determined using the Binomial valuation model was HK$0.12 per option (2011: HK$0.28 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 2012, the Company had 336,457,200 (2011: 299,557,200) share options outstanding under the Share Option Scheme, which represented approximately 9.94% (2011: 10.78%) 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.

Notes to the Consolidated Financial Statements

34 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$185,000 represents contributions payable to these schemes by the Group during the year ended 31 December 2012 (2011: HK$152,000).

35 Acquisition of Hugo Link Global Investments Limited ("Hugo Link")

On 15 May 2012, the Group acquired 95% of the issued share capital of Hugo Link for consideration of HK$110,994,000, comprised of US$3,500,000 (equivalent to approximately HK$27,300,000) in cash and HK$83,694,000 in the form of 452,400,000 new Company shares. As a result of the acquisition, Hugo Link holds 95% of BHE which in turn holds 37.5% of GM. BHE also holds currently exercisable warrants in GM which upon exercise will bring its shareholding in GM to 60%.

GM is a company established in Indonesia, principally engaged in marble rock mining and related business, and having a mining permit covering approximately 33 hectares at Selenrang, Bontoa, Maros Regency, Indonesia. The mining permit is valid until 22 January 2017 and is renewable for two 10-year periods.

The acquisition of Hugo Link is accounted for as an asset purchase rather than a business combination because GM was still in the very early stage and its main asset is the mining property.

The following assets and liabilities were acquired as part of the transaction:

	HK$'000
Plant and equipment	1,413
Exploration and evaluation assets — mining properties	180,758
Deposits, prepayments and other receivables	830
Bank balances and cash	907
Other payables	(551)
Fair value of net assets	183,357
Non-controlling interests	(120,145)
Warrants in GM recorded in Other reserve (Note 19(b))	47,782
Total consideration — shown as below	110,994

Notes to the Consolidated Financial Statements

35 Acquisition of Hugo Link Global Investments Limited ("Hugo Link") *(Continued)*

	HK$'000
Total consideration satisfied by:	
Cash deposit utilised (Note 25)	19,500
Consideration payable (Note 28)	7,800
Fair value of shares issued (Note 31(ii))	83,694
Total consideration	110,994

36 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.

(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 36(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 2012.

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.

Notes to the Consolidated Financial Statements

37 Related party transactions

The Group entered into the following material related party transactions during the year ended 31 December 2012 and 2011.

	Year ended 31 December	
	2012	2011
	HK$'000	HK$'000
Reimbursement of expenses paid by Petromin on behalf of the Group	**232**	236
Professional services income paid/payable by Petromin	**(150)**	(40)
Reimbursement of expenses paid by the shareholders of GM and its related parties	**330**	–

(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 2012: (i) Mr. Chan Wing Him Kenny held 1,000,000 stock options entitling him to subscribe for 1,000,000 common shares (representing approximately 1.49% of the issued common share capital) in Petromin; (ii) Dr. Arthur Ross Gorrell held 4,068,193 common shares (representing approximately 6.05% of the issued common share capital) and 1,000,000 stock options entitling him to subscribe for 1,000,000 common shares (representing approximately 1.49% 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 2012, the Group held approximately 2.6% equity interests in Petromin, and certain convertible debentures issued by Petromin. The debenture is convertible into 3,150,000 common shares of Petromin (approximately 4.7% of the outstanding common shares of Petromin as of 31 December 2012).

(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.

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 2012, no legal entity has been formed pursuant to this Co-operation.

(ii) 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.

Notes to the Consolidated Financial Statements

37 Related party transactions *(Continued)*

(b) Transactions with other related parties

The Group also reimburses the non-controlling shareholders of GM and its related parties for miscellaneous expenses such as travelling and accommodation costs paid on the Group's behalf at cost.

(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	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and other benefits	**19,612**	20,277
Retirement benefit scheme contributions	**55**	48
Share-based payments	**3,088**	5,126
Discretionary and performance related incentive payments	**5,408**	5,173
	28,163	30,624

38 Operating lease commitments

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

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,920**	1,871	**1,061**	930
After one year but within five years	**1,196**	1,055	**122**	1,055
	4,116	2,926	**1,183**	1,985

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.

Notes to the Consolidated Financial Statements

39 Capital commitments

	As at 31 December	
	2012	2011
	HK$'000	HK$'000
Other commitments authorised but not contracted for in respect of:		
— PSC	**630**	17,940
Other commitments contracted for but not provided in the consolidated financial statements in respect of:		
— Oil & gas exploration activities	**3,598**	–
	4,228	17,940

40 Contingent liabilities

As at 31 December 2012, the Group did not have any contingent liabilities (2011: Nil).

41 Subsequent events

(a) On 11 March 2013, Allied Resources Limited, a wholly-owned subsidiary of the Company, and a third party purchaser, have entered into the deed of cancellation pursuant to which the parties have agreed to terminate and release all their respective rights and obligations under and pursuant to the agreement dated 18 October 2012 in relation to the sale and purchase of 100% of Jilin Hengli Industries Liability Co., Ltd, an indirect wholly-owned subsidiary of the Company with effect from the signing of the deed of cancellation. On the same day, the Company and the new purchaser have entered into the disposal agreement pursuant to which the Company has agreed to sell and the new purchaser has agreed to acquire 100% of Allied Resources Limited for a cash consideration of RMB50,000,000 (equivalent to approximately HK$61,425,000) and the new purchaser agreed to pay the Company the cash balance of Allied Resources Limited as at 28 February 2013 on completion. The transaction was completed on 11 March 2013.

(b) On 18 March 2013, Aces Diamond Pte. Ltd., has entered into a memorandum of understanding with PT. Anugerah Batualam Industri, a third party, in relation to, among others, the production and operation of the marble mine located at Barabatu, Labakkang District, Pangkep Regency, South Sulawesi Province, Indonesia.

Five Years Financial Statement Summary

Consolidated Income Statement

	Year ended 31 December				Period from 1 August 2007 to 31 December
	2012	2011 (Restated)	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	69	164	379	310	2,213
Cost of Sales	(35)	(123)	(297)	(246)	(1,818)
Gross profit	34	41	82	64	395
Discount on acquisition	–	–	–	–	367,973
Administrative and operating expenses	(74,189)	(74,076)	(99,234)	(44,095)	(163,936)
Share of profits less losses of:					
— Jointly-controlled entity before impairment loss	–	–	964	(3,279)	3,198
— Jointly-controlled entity's impairment loss	–	–	–	(59,748)	(227,802)
Other gain/(loss), net	1,597	(1,753)	(3,177)	(509)	–
Operating loss	(72,558)	(75,788)	(101,365)	(107,567)	(20,172)
Finance income	442	454	512	42	6,833
Loss before taxation	(72,116)	(75,334)	(100,853)	(107,525)	(13,339)
Income tax	683	388	4,618	–	–
Loss for the year/period from continuing operations	(71,433)	(74,946)	(96,235)	(107,525)	(13,339)
Loss for the year from discontinued operations	(2,930)	(2,428)	–	–	–
Loss for the year/period	(74,363)	(77,374)	(96,235)	(107,525)	(13,339)
Non-controlling interests	(945)	(676)	909	(930)	(2,193)
Loss attributable to equity holders of the Company	(73,418)	(76,698)	(97,144)	(106,595)	(11,146)

Consolidated Balance Sheet

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	1,324,020	1,132,678	1,116,325	1,032,238	938,251
Current assets	33,856	52,875	161,436	104,247	153,415
Current liabilities	(53,495)	(27,756)	(47,092)	(40,890)	(44,065)
Non-current liabilities	(247,733)	(243,359)	(249,083)	(240,941)	(206,578)
Net assets	1,056,648	914,438	981,586	854,654	841,023