EPI (Holdings) Limited
長盈集團(控股)有限公司

HKSE:0689

Annual Report 2012

Corporate Profile

EPI is a company that primarily focuses on the production of oil and gas in the energy and resource sector. While having a strong oil and gas exploration and production operation in Argentina, EPI is progressively expanding its portfolio through strategic mergers and acquisitions in other oil and gas projects around the world. EPI is committed to becoming one of Asia's leading operators in the oil and gas industry and is proactively pursuing investment opportunities that create long-term, sustainable value to our shareholders.

	2012 HK$'000	2011 HK$'000		Change
Turnover	**86,682**	619,800	↓	86%
Loss before taxation	**(3,341,689)**	(225,679)	↑	1381%
Loss for the year	**(3,352,040)**	(217,737)	↑	1439%
Loss per share attributable to owners of the Company				
– Basic	**HK$(1.26)**	HK$(0.11)		
– Diluted	**HK$(1.26)**	HK$(0.11)		

FINANCIAL POSITIONS

	2012 HK$'000	2011 HK$'000		Change
Cash and bank balances	**2,680**	29,509	↓	91%
Total assets	**1,136,707**	4,525,191	↓	75%
Short term liabilities	**187,251**	226,885	↓	17%
Long term liabilities	**275,854**	379,365	↓	27%
Total equity	**673,602**	3,918,941	↓	83%

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VISION

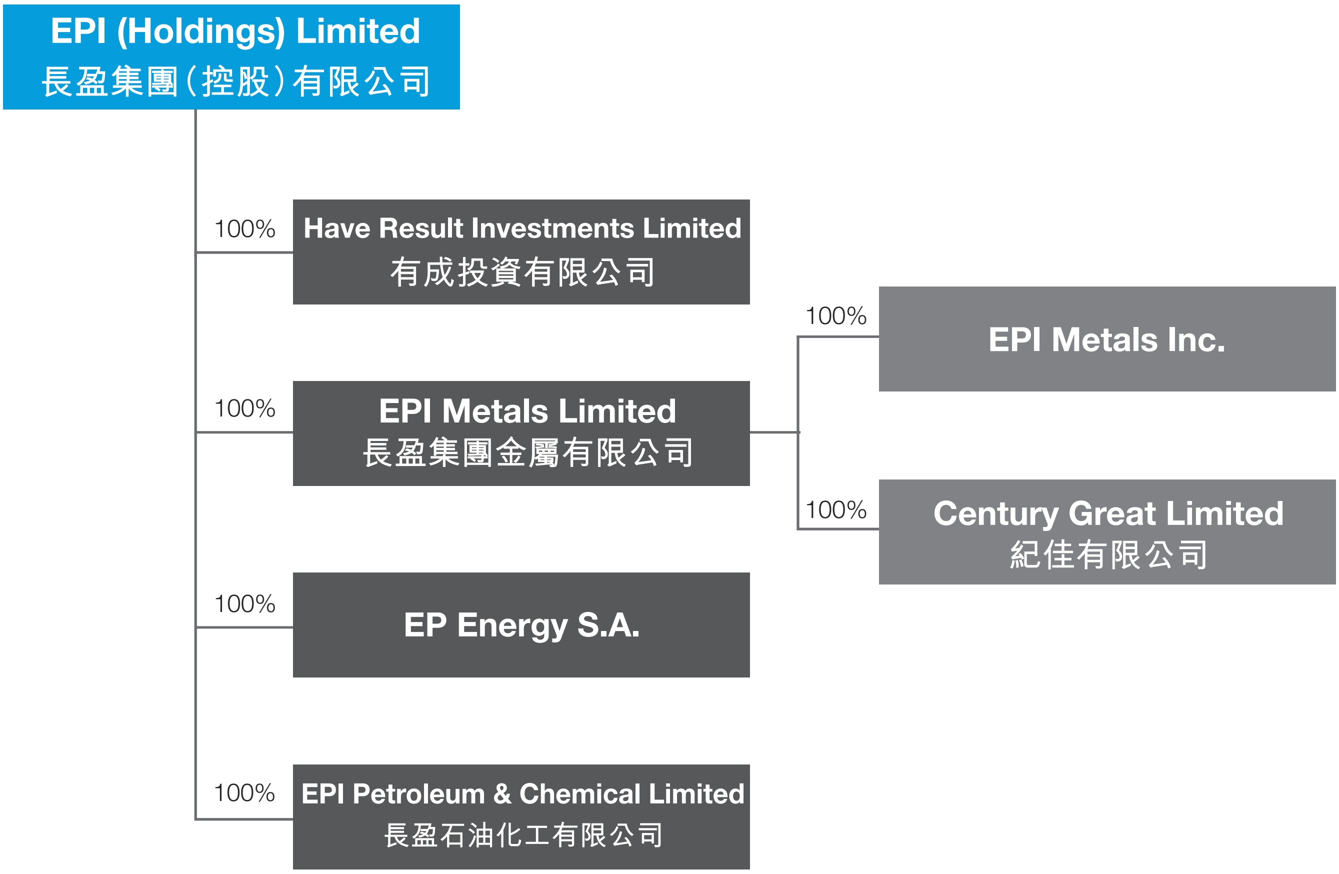
Our vision is to become one of Asia's leading operators in the oil and gas industry. At EPI, we aim to achieve this by investing in oil and gas projects with good potentials and building a strong operation and management team to support our exploration, production and development work for our oilfield projects.

MISSION

Our mission is to build strategic and productive partnerships with major state-owned enterprises in China oil and gas industry that fit well with our operating strengths and interests to progressively explore, invest and develop significant projects around the world.

Our strategy is to invest in projects that will bring quick investment returns. Leveraging on our financial restructuring and management skills, we aim to maximize our value and to provide long-term and sustainable returns to our shareholders.

Corporate Structure



CEO Statement

Mr. Chu Kwok Chi Robert, Executive Director and CEO

On behalf of the board (the "Board") of directors (the "Directors") of EPI (Holdings) Limited (the "Company") and its subsidiaries (collectively, the "Group"), I hereby present the annual results and the audited financial statements of the Group for the year ended 31 December, 2012.

The Group recorded a loss for the year of HK$3,352 million, against a loss for the year of HK$217.7 million in year 2011. The Company witnessed a difficult business environment in 2012. Following the nationalization of YPF, Argentina's biggest oil company during the year by the Argentina government and implementation of severe capital control by the end of 2012, the Directors conducted a review of the investment plan for 2013. The Directors have decided to defer the Group's drilling plan in the Puesto Pozo Cerado Conncession and Chañares Herrados Concession (collectively the "Concessions") until the local political and economic outlook in Argentina improve to more favourable business conditions. This is a step that the Directors consider best for the Group.

Looking into 2013, we will continue to pursue materially accretive acquisitions in upstream oil and gas assets. The Group is now looking into a few acquisition opportunities in North America (including the proposed acquisition of the equity ownership and voting shares of a group of companies holding the interests in certain oil and gas properties located in United States of America which was announced by the Company on 28 November 2012, which may constitute major transactions/very substantial acquisition transactions for the Company under the Listing Rules if the proposed acquisition proceeds.

Finally I would like to take this opportunity to express my sincere gratitude to the Board and all staff for their valuable contribution. I would also like to thank all of our shareholders for their continued support.

The Group's core business is the petroleum exploration and production in the Puesto Pozo Cercado Concession and Chañares Herrados Concession (collectively the "Concessions") in the Cuyana Basin, Mendoza Province of Argentina.

On 5 June 2012, The Group's subsidiaries, EP Energy S.A. ("EP Energy") and Have Result Investments Limited ("Have Result"), have entered into an Operation Agreement ("Operation Agreement") with Chañares Herrados Empresa de Trabajos Petroleros S.A. ("Chañares") where,

- Chañares agreed to release EP Energy from the Commitment under the JV Agreement signed on 12 January 2011. EP Energy retains the right to drill and invest in the Areas during the life of the concessions awarded with respect to the Areas and any extension thereof;

- The Operation Agreement reconfirmed that Have Result has the right to receive 51% of the hydrocarbon production obtained from the 5 wells drilled by Have Result until the termination of the concessions held in respect of the Areas and any extension thereof;

- Chañares, Have Result and EP Energy have agreed the distribution methodology of the incentive granted from Petróleo Plus program ("Petróleo Plus Program") executed by the government of Argentina. According to this distribution methodology, Chañares have agreed and paid Have Result approximately AR$7.0 million (equivalent to approximately HK$14.7 million) being Petróleo Plus Program incentive in respect of production up to June 2011.

On January 2012, the fourth oil well CH-1066 and fifth oil well CH-1082 drilled by EP Energy in Chañares Herrados Concession Area has commenced production.

The Group has performed 7 workover jobs to the oil wells during year 2012. The overall results are satisfactory with increase in initial production after workover better than expected.

As at 31 December 2012, The Group has finished drilling 10 oil wells in the Chañares Herrados Concession Area, Mendoza oilfield project. All the 10 wells are in production, of which 5 oil wells were drilled by Have Result where the Group is entitled 51% interest on production, and 5 oil wells were drilled by EP Energy where the Group is entitled 72% interest on production.

The contingent oil resources in certain shallow reservoirs in the Mendoza Oilfield as at 31 December 2012 are as follows,

Contingent Oil Resource *(unit: million barrels) **	**31 Dec 2012**	31 Dec 2011
Category Gross (100%)		
Low Estimate (1C)	**83.5**	84.8
Best Estimate (2C)	**146.9**	146.9
High Estimate (3C)	**245.5**	245.5
Total (1C+2C+3C)	**475.9**	477.2

* According to the Resource Estimation Review Report issued by Roma Oil and Mining Associates Limited on 19 March 2013 on The Chañares Herrados and Puesto Pozo Cercado Oil Project in Mendoza Province, Argentina.

The carrying amount of the exploration and evaluation assets is reviewed for impairment indicators annually and adjusted for impairment loss in accordance with HKAS 36 “Impairment of assets” and whenever there are any “trigger” events or changes in circumstances indicating that the carrying amount may not be recoverable. During the year ended 31 December 2009, 31 December 2010, 31 December 2011 and the period ended 30 June 2012, there were no events or changes in circumstances indicating that the carrying amount of exploration and evaluation assets might not be recoverable. Accordingly, no impairment needed to be provided for the exploration and evaluation assets.

The Board of Directors, taking into accounts the certain events happened from November 2012; decided to perform an annual review of the impairment on the exploration and evaluation assets as at 31 December 2012 in the beginning of January 2013. During the review it comes to the attention that the business environment in Argentina has been adversely changed. Accordingly, the Group performed an impairment test on its exploration and evaluation assets. Discounted cash flow method is to be used. During the adoption of the discounted cash flow method, the Board has applied a more prudent estimation on those factors and assumptions for future recoverable amounts on the exploration and evaluation assets.

Details of impairment review are set out in the Group Financial Review section.

GROUP FINANCIAL REVIEW

For the year ended 31 December 2012, the Group’s turnover was HK$86.7 million, a decrease of HK$533.1 million as compared with HK$619.8 million recorded in last year. The Group recorded a loss for the year of HK$3,352 million, against a loss for the year of HK$217.7 million in year 2011. The Group did not generate revenue from the trading of petroleum related products during the year 2012, which led to the substantial decrease in turnover as compared with 2011. During year 2012, an impairment loss of HK$3,130,106,000 was recognised in respect of the E&E assets and impairment loss of HK$132,906,000 (year 2011: HK$34,023,000) was recorded in respect of property, plant and equipment relating to the Chañares oil project.

On 3 November 2009, the Group acquired the entire issued share capital of Have Result for a consideration of HK$3,835,273,000. The principal assets held by Have Result are exploration and evaluation assets, including oil exploration rights. For the fair value of the oil exploration rights acquired, as the exploration on the acquired areas was at the initial stage and the prospective resources have been estimated using a consideration of deterministic and probabilistic methods, the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. As a result, the fair value of the consideration paid, including shares and convertible notes issued, was used to account for the cost of the oil exploration rights, which was HK$3,810,136,000, being capitalized as an exploration and evaluation assets.

At the time of acquiring the entire issued share capital of Have Result, except for the 51% working interest in the Concessions in the Cuyana Basin, Mendoza Province of Argentina, Have Result has no other operating assets and therefore the market value of Have Result is mainly dominated by the value of the oilfield. Three generally accepted valuation methodologies have been considered in valuing Have Result by BMI Appraisals Limited (“BMI”), the professional valuer, namely the market approach, the cost approach and income approach.

The market approach provides indications of value by comparing the subject to similar businesses, business ownership interests, and securities that have been sold in the market. The cost approach provides indications of value by studying the amounts required to recreate the business for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of the business.

The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar business with a similar risk profile.

BMI have considered that the income approach is not appropriate to value Have Result, as there are insufficient historical and forecasted financial and operational data of the oilfield. Moreover, the income approach may involve adoption of much more assumptions than the other two approaches, not all of which can be easily quantified or ascertained. In the event that any such assumptions are founded to be incorrect or unfounded, the valuation result would be significantly affected. The cost approach is also regarded inadequate in this valuation, as this approach does not take future growth potential of Have Result into consideration. Thus, they have determined that the market approach is the most appropriate valuation approach for this valuation.

BMI used the market approach by referring to recent sales and purchase transactions of oilfields. They referred to 84 recent sales and purchase transactions related to oilfields over the world (referred to as the “Transactions”) till June 2009, of which they further analyzed the natures, the presentation methods of the reserves and other parameters that may affect the comparability to the oilfield.

In the valuation, BMI used the weighted-average adjusted consideration price to proved and probable reserve (referred to as the “Adjusted P/Reserve”) multiple of the Comparable Transactions to determine the market value of the oilfield and the market value of Have Result accordingly.

Based on the investigation and analysis done by BMI, it was determined that the market value of a 100% equity interest in Have Result as at 30 June 2009 was US$612,000,000 (or HK$4,773,600,000). The carrying value of the exploration and evaluation assets of HK$3,810,136,000 as at 3 November 2009, date of acquisition, was approximately 79.82% of the valuation of a 100% equity interest in Have Result as at 30 June 2009.

When determining the fair value of the exploration and evaluation assets acquired, as the exploration on the acquired areas was at the initial stage and the prospective resources have been estimated using a consideration of deterministic and probabilistic methods, the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. As a result, the fair value of the consideration paid, including shares and convertible notes issued, was used to account for the cost of the exploration and evaluation assets.

The carrying amount of the exploration and evaluation assets is reviewed for impairment indicators annually and adjusted for impairment loss in accordance with HKAS 36 "Impairment of assets" and whenever there are any "trigger" events or changes in circumstances indicating that the carrying amount may not be recoverable. During the year ended 31 December 2009, 31 December 2010, 31 December 2011 and the period ended 30 June 2012, there were no events or changes in circumstances indicating that the carrying amount of exploration and evaluation assets might not be recoverable. According to the requirements under HKAS 36 "Impairment of assets", no impairment needed to be provided for the exploration and evaluation assets.

In November 2012, the Group noted that the crude oil selling price to YPF through Chañares decreased by US$1.5 per barrel to US$67.2 per barrel, and dropped to US$66.5 per barrel in December 2012, which maintain through February 2013. This is the first time of oil price decrease since the Company commenced its investment in Argentina.

In the Operation Agreement signed on 5 June 2012, the Group and Chañares agreed the distribution methodology of the incentive granted from Petróleo Plus program ("Petróleo Plus Program") executed by the government of Argentina. According to this distribution methodology, Chañares have agreed and paid Have Result approximately AR$7.0 million (equivalent to approximately HK$14.7 million) being Petróleo Plus Program incentive in respect of production up to June 2011, which represent around US$16.7 per barrel with reference to the production in relevant period. Have Result and EP Energy have been informed by Chañares the shared proportion of production incentive for 3rd and 4th quarter 2011 and reserve incentive for year 2011, which represent around US$16.3 per barrel with reference to the production in relevant period. Have Result and EP Energy have issued a formal letter to Chañares on May 2012 to assign Chañares, as the Concession owner, to collect the incentive on the Company's behalf. As of December 2012 and as of the announcement date, Chañares have not received any tax certificate in respect of the above incentive from the Tax Department. The Group considered the chance to receive the incentive was uncertain. The Petróleo Plus Program incentive of approximately US$16 per barrel represents 24% of the US$66.5 per barrel local oil selling price as of the date of this announcement. Any loss of the Petróleo Plus Program incentive would substantially affect our investment return.

The Board of Directors, taking into accounts the above events; perform a review of the impairment on the exploration and evaluation assets as at 31 December 2012. During the review it comes to the attention that the business environment in Argentina has been adversely changed. Accordingly, the Group performed an impairment test on its exploration and evaluation assets. Discounted cash flow method is to be used. During the adoption of the discounted cash flow method, the Board has applied a more prudent estimation on those factors and assumptions for future recoverable amounts on the exploration and evaluation assets:

- Overall development plan will be delayed until investment climate in Argentina improves. In developing the future business plan, the Directors take a more prudent approach and only considered the production estimation up to the expiry of Concession after a 10 years extension to year 2027. The production quantity used to calculate future cash flows from operations substantially decrease.

- The discount rate used for the impairment assessment in 2012 should consider a higher country risk of Argentina, in view of the adverse change in business environment in Argentina. The discount rate used in year 2012 is 14.1%. The discount rate substantially reduced the net present value of future cash flow of the project.

- Future oil selling price are reference to WTI spot price. The Directors consider Argentina local selling price will only increase in a more steadily way and will take a longer time to match with the WTI.

During the year ended 31 December 2012, followed the change of valuation methodology from market approach to discounted cash flow, use of prudent assumptions in preparing the discounted cash flow such as higher discount rate and decrease in oil price estimation had substantially reduced the net present value of the exploration and evaluation assets. An impairment loss of HK$3,130,106,000 was recognized as the carrying amount of the E&E assets exceeds its recoverable amount. It is a non-cash item adjustment and does not affect the current operations of oil field.

REVIEW OF GROUP OPERATIONS

During year ended 31 December 2012, the Group's core and continuing operations is petroleum exploration and production.

The Group did not generate revenue from the trading of petroleum related products during the year 2012.

Exploration and sales of petroleum

In January 2012, EP Energy S.A. has finished the test production of the fourth well CH-1066 and fifth well CH-1082. During year 2012, the Group has performed 7 workover jobs to the oil wells and invested in our owned centralized well fluid collection tank and collection pipeline. The overall results are satisfactory with increase in initial production after workover better than expected. As of the date of this report, the Group has ten wells in production.

Oil well	Status	Depth (m)	Date of production
CH-1052	In production	3,697	26 November 2009
CH-1053	In production	3,580	8 December 2009
CH-1055	In production	3,600	25 March 2010
CH-25 bis	In production	4,685	12 May 2010
CH-7 bis	In production	4,200	14 August 2010
CH-1059	In production	3,600	9 July 2011
CH-1068	In production	3,600	17 August 2011
CH-1063	In production	3,600	28 September 2011
CH-1066	In production	3,600	1 January 2012
CH-1082	In production	3,600	10 January 2012

During year 2012, the Group had 10 producing wells generating oil sales revenue and has received from Chañares incentive from Petróleo Plus Program in respect of production up to June 2011. All our oil production was sold to YPF Sociedad Anónima, through Chañares, the Concessions owner.

Turnover generated from the sales of petroleum segment for the year ended 2012 is HK$80.9 million. As of 31 December 2012, the Company has invested HK$559.50 million in the drilling and completion of its oil wells, as well as related infrastructure, in the Mendoza project. This amount includes: 1) HK$382.1 million in oil well drilling and completion which is classified as oil & gas properties and for which depreciation started from the commencement of production; 2) HK$0 million in oil well drilling which has not yet completed and commenced production, which is classified as Construction in Progress, and for which no depreciation is charged until commencement of production; 3) HK$177.4 million of oil well drilling exploration cost for exploration purpose to collect data in the Potrerillos Formation that is located at a depth of over 4,200 meters, which was charged to profit or loss in year 2010.

During the year 2012, the depreciation of the oil & gas properties was HK$36.9 million.

Metals transactions

Revenue from metals transactions are for the purpose of procurement of the metals for the Group's customers and accordingly, the difference between the sales and purchase prices represents the income earned by the Group for its services rendered. During the year, net amount of HK$5,828,000 was recognised as revenue in the consolidated statement of comprehensive income.

1.1 Future operation plan

Short-term development plan

Pursuant to the Operation Agreement signed on 5 June 2012, Chañares agreed to release EP Energy from the Commitment under the JV Agreement signed on 12 January 2011. The Group is focused on workover and infrastructure investments to improve production on the existing oil wells during year 2012 and 2013. The Group has invested in our owned centralized well fluid collection tank and collection pipeline, which will be in use during the second quarter of year 2013. The Group will invest in our own water injection capacity in the second quarter of year 2013 to lower the field operating cost.

Future development plan

The Directors considered the current economic situation of Argentina and decided to restart the overall business development plan on Chañares oil project in later years. The future business plan is developed by applying a more prudent estimation on those factors and assumptions for future cashflow estimation on the project. From the Technical Review Report issued by Roma Oil and Mining Associates Limited dated 19 March 2013, the Best Estimate (2C) Contingent Oil Resources as at December 2012 remained the same as that of December 2011. In developing the future business plan, the Directors take a more prudent approach and only considered the production estimation up to the expiry of Concessions after a 10-year extension to year 2027. The Oil Resource of the project have not reduced, the change in development plan and the production estimation is a more prudent way to value the project. The production quantity used to calculate future cash flow from operations substantially decrease.

Other business opportunities

After setting up the technical & operational team and having a stable development in Argentina operation, the Group continues making effort in searching for opportunities on Oil & Gas Exploration and production business. The Group is focused on the oil & gas field with stable production base, with proven reserve, with certain development opportunities, in those industrial-advanced countries, such as the United States of America. The Group is now looking into a few acquisition opportunities in North America and one of them has been negotiated to an advance stage. If the proposed acquisition proceeds, the transaction may constitute a major/very substantial acquisition transaction for the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and further announcement will be made by the Company in accordance with the Listing Rules. The Board wishes to emphasize that the negotiations for the proposed acquisition may or may not proceed. Shareholders and investors of the Company are urged to exercise caution when dealing in the shares of the Company.

FINANCIAL POSITION

As at 31 December 2012, the net asset value of the Group was HK$673.6 million (2011: HK$3,918.9 million) and the net asset value per share was HK$0.2 (2011: HK$1.8).

LIQUIDITY AND FINANCIAL RESOURCES

In order to meet general working capital requirements, the Group has decided to raise additional capital via placement of shares during the year. On 25 April 2012, the Company raised net proceeds of approximately HK$47 million via a top-up subscription placement of 330,000,000 shares at HK$0.15 per share. On 28 June 2012, the Company raised net proceeds of approximately HK$53.6 million via a top-up subscription placement of 250,000,000 shares at HK$0.155 per share and new shares placement of 110,000,000 shares at HK$0.155 per share. The Company will raise additional funds via placement of shares and the issue of convertible notes to finance its general working capital requirements in the coming year.

PLEDGE OF ASSETS

At 31 December 2012, the following assets were pledged to secure the Group's bank borrowings and banking facilities:

(a) The entire stock capital of EP Energy whose principal asset is the 72% equity interest in the joint venture company formed under the New JV Agreement.

(b) The entire issued share capital of Have Result.

(c) The entire issued share capital of two wholly-owned subsidiaries of the Company which together hold the entire stock capital of EP Energy.

CAPTITAL COMMITMENTS

As at 31 December 2012, the future capital expenditure for which the Group had contracted but not provided for amounted to HK$nil (2011: HK$210.60 million).

Chu Kwok Chi, Robert
Executive Director and CEO

Hong Kong, 28 March 2013

EXECUTIVE DIRECTORS

Mr. CHU Kwok Chi, Robert, Executive Director and Chief Executive Officer, aged 62

Mr. Chu has been a Sales Director for the Group since August 2004 and was appointed Executive Director for the Group in September 2006 heading the consumer electronics business. Mr. Chu has over 30 years of experience in the international trade and the electronics industry. Mr. Chu has been responsible for the marketing, sales, trading and production of various private and listed consumer electronics companies in Hong Kong. He was the Managing Director of Eltic Electronics Company Limited, a subsidiary of Great Wall Cybertech Limited (former name of EPI (Holdings) Limited), from 1990 to 2000.

Mr. Chu was appointed as the Executive Director of Vision Tech International Holdings Limited (HKSE stock code: 922) on 3 March 2008. He holds a Bachelor's Degree in Business Administration.

Mr. HONG Kin Choy, Bryan, Executive Director, Chief Financial Officer and Company Secretary, aged 48

Mr. Hong joined the Group in October 2005. Mr. Hong oversees the Group's financials and carries out the role of Company Secretary. He is a practising certified public accountant in Hong Kong and a Fellow Member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Hong has over 20 years of experience in the fields of audit, accountancy, business advisory services and corporate finance. Mr. Hong received a Professional Diploma in Accountancy from Hong Kong Polytechnic University in 1987, and subsequently worked for international accounting firm Deloitte Touche Tohmatsu for 5 years, where he had extensive experience in accountancy, auditing and taxation.

Mr. Hong has wide experience in the commercial sector and has held Financial Controller and General Manager Positions for more than 10 years. Prior to joining the Group, Mr. Hong runs a CPA firm in his own name.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEUNG, Yuk Ming, aged 60

Mr. Cheung joined the Group in June 2011. He is a certified public accountant registered in Hong Kong and a member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Bankers, the Institute of Internal Auditors of the United States, the Alliance of Acquisition and Merger Advisors (Chicago, the United States), the Chartered Institute of Arbitrators (U.K.), the Institute of Chartered Accountants in England and Wales, the Hong Kong Securities Institute, the Constuction Management Association of America and the Canadian Institute of Mining, Metallurgy and Petroleum.

Mr. Cheung obtained a Master's degree in business administration from the University of East Asia, Macau in 1987 and completed courses on construction management, development and financing of mining industry, petroleum economics and petroleum risk management conducted by China University of Geosciences, the Institute of Civil Engineering Surveyors and other associations. Prior to June 2009, Mr. Cheung had worked at PricewaterhouseCoopers, Lau, Cheung, Fung & Chan, the Hong Kong Government and other organisations. He has been an executive director of Lawrence CPA Limited since January 2005 and an independent non-executive director of Metallurgical Corporation of China Limited (HKSE stock code: 1618) since June 2009 and an independent non-executive director of Travelsky Technology Limited (HKSE stock code: 696) since March 2010.

Mr. QIAN, Zhi Hui, aged 50

Mr. Qian joined the Group in September 2008. He joined China National Native Produce & Animal By-Products Import & Export Corporation, Guangdong Province, as chief legal advisor in 1988. He joined Guangzhou King Pound Law Firm as lawyer in 1993 and is currently a partner of Guangdong Justwin Law Firm. From 2006 to 2008, he was the Independent Non-Executive Director of New Times Group Holdings Limited (HKSE stock code: 166). He has a Master degree in Procedural Law from Southwest University of Political Science and Law.

Mr. ZHU Tiansheng, aged 67

Mr. Zhu joined the Group in November 2009. He has over 39 years extensive experience in project management, operations, design and construction process of oil and natural gas transmission pipeline, exploration, production and transporting heavy oil, recycling of light hydrocarbon, design and construction of natural gas treatment plants in numerous oil field projects in China.

Mr. Zhu has been employed by China National Offshore Oil Corporation ("CNOOC") since 1986. Since 2005, he is the Senior Consultant and the Chief Project Officer for China Offshore Oil & Gas Development & Utilization Company of CNOOC, participating in the construction of asphalt plant. From 2004 to 2005, he was the Deputy Director of Coordination Office of CNOOC and Mr. Fu Chengyu, was the director and currently the General Manager of CNOOC. From 2001 to 2004, Mr Zhu was the General Manager of China Ocean Oilfields Services (Hong Kong) Limited.

During the period of 1997 to 2001, Mr. Zhu was the General Manager of the Construction Department of CNOOC. The Construction Department is responsible for the organization and investigation of concept design and plans of development, an immediate and final investigation of the basic design. The detailed designs, constructions and installations are managed by the Project Units, which are organized by the Construction Department. The Construction Department also organizes and cooperates with foreign companies for the development and construction of oil and gas fields.

From 1992 to 1997, Mr. Zhu was the Deputy Manager of Development and Production Department of CNOOC and he was responsible for construction development. During the period of 1986 to 1992, he was offered the position of Chief of Project Management Office of Construction Department of CNOOC.

In 1986, Mr. Zhu was transferred to CNOOC from Liaohe Oil Field, China where he had worked there for over 11 years in the 70s and his last position was the Chief of Oil and Gas Management Office of Liaohe Oil Field.

Mr. Zhu was graduated at the Beijing Petroleum Institute and was majoring in oil and gas storage and transportation engineering since 1969. During his work tenor, Mr. Zhu was trained in Japan for 3 months in recycling of light hydrocarbon and studied project management in EGT in United Kingdom during 1994.

SENIOR MANAGEMENT PROFILE

Mr. PAK, Ka Kei, Financial Controller, aged 42

Mr. Pak joined the Group in November 2009. Mr. Pak oversees the Group's financials and focus on the oil project. Mr. Pak has over 18 years experience in the fields of audit, internal control, accountancy, taxation and treasury. Prior to joining the Group, Mr. Pak has been working in TCL Multimedia Technology Holdings Limited over 10 years on the finance sections in Hong Kong, Emerging Markets and Europe and he has held the Deputy Internal Control Director and Deputy Financial Controller for Emerging Markets and Europe.

Mr. Pak graduated from City University of Hong Kong with a Bachelor of Arts degree in Accounting in year 1994 and has been worked for Ernst & Young for 5 years.

Mr. DANIEL FEDERICO QUIROGA, aged 47

Mr. Quiroga joined the Group in December 2010. Mr. Quiroga oversees the Group's oil project in Argentina as the General Manager of Argentina Operation. He has over 25 years extensive experience in, operations, exploration, production management of oil field projects in Argentina, Mexico and Ecuador.

Mr. Quiroga has been employed by Tecpetrol S.A. since year 1991. The last position held by Mr. Quiroga in year 2000 is Head of Secondary Recovery Division. During the work in Tecpetrol S.A., Mr. Quiroga was appointed as Operation Engineer, Production Manager, Field Operation Manager and gain experience in operation, production management for various Oil Fields in Argentina.

Mr. Quiroga was the Operation Supeintendent and Field Manager who is in charge of field operations in oil fields located in Neuquina Basin and S.J. Gulf Basin, Argentina for Pioneer NRA S.A. during year 2002 to 2006.

Before joining the Company, Mr. Quiroga has been working for Weatherford Regional Mexieo as the Operation Coordinator. He was in charge of field operations for oil field in Mexico.

Mr. Quiroga was graduated at National University of Cuyo in Mendoza Province, Argentina and was majoring in Petroleum Engineer in year 1991. Mr. Quiroga was the Postgrade in Business & Finance at National University of Cuyo in Mendoza Province, Argentina.

The Board hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2012.

CORPORATE GOVERNANCE PRACTICES

The Board recognizes the importance of incorporating elements of good corporate governance into the management structure and the internal control procedures of the Group so as to ensure that all business activities of the Group and the decision making process are properly regulated. During the year under review, the Company has applied the principles and has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") with deviations from the code provision A.2.2, A.2.3 and A.4.1 of the CG Code as summarized below.

The code provision A.2.2 of the CG Code stipulates that the chairman should ensure that all directors are properly briefed on issues arising at board meetings and the code provision A.2.3 of the CG Code stipulates that the chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner. During the year 2012, the office of the chairman of the Company is vacant. The Company recognizes the importance of the duties of the chairman and will identify a high caliber executive to take up the role as soon as possible.

The code provision A.4.1 of the CG Code stipulates that Non-executive Directors should be appointed for a specific term, subject to re-election. Currently the Non-executive Directors are not appointed for a specific term. However, all Non-executive Directors are subject to retirement and can offer themselves for re-election in accordance with the Company's Bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct rules (the "Model Code") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company confirms that all Directors have complied with the Model Code throughout the year.

BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board.

The Board is responsible for the promotion of the success of the Company by directing and guiding its affairs in an accountable and effective manner. Board members have a duty to act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders.

The types of decisions that are to be taken by the Board include:

1. Setting the Company's mission and values
2. Formulating strategic directions of the Company
3. Reviewing and guiding corporate strategy; setting performance objectives and monitoring implementation and corporate performance
4. Monitoring and managing potential conflicts of interest of management and Board members; and
5. Ensuring the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

For the year ended 31 December 2012, the Board:–

1. reviewed and approved the annual results of the Group for the year ended 31 December 2011 and the interim results of the Group for the period ended 30 June 2012.
2. reviewed and approved the general mandates to issue and repurchase shares of the Company
3. reviewed the internal controls of the Group
4. reviewed the performance of the Group and formulated the business strategy of the Group.
5. reviewed and approved the top-up subscription placement of 330,000,000 shares in the Company at HK$0.15 per share
6. reviewed and approved the top-up subscription placement of 250,000,000 shares in the Company at HK$0.155 per share
7. reviewed and approved the new shares placement of 110,000,000 shares in the Company at HK$0.155 per share
8. reviewed and approved the price-sensitive transactions

Regular Board meetings are scheduled in advance to give all Directors an opportunity to attend. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. No request was made by any Director for such independent professional advice in 2012. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings, which will be available for inspection by Directors upon request.

BOARD COMPOSITION

The Board currently comprises two Executive Directors and three independent Non-executive Directors, whose biographical details are set out in the section headed "Directors and Senior Management Profile" on page 14.

The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operation and development of the Group. The Company has also adopted the recommended best practice under the CG Code for having at least one-third of its Board members being independent non-executive directors.

All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group.

BOARD MEETING RECORDS

There were four meetings held for the year ended 31 December 2012. The following is an attendance record of the Board Meetings held by the Board during the year:

Name of Directors	Number of Board meetings attended in 2012
Mr. Chu Kwok Chi Robert	4/4
Mr. Hong Kin Choy	4/4
Mr. Cheung Yuk Ming	4/4
Mr. Qian Zhi Hui	2/4
Mr. Zhu Tiansheng	3/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman's responsibility is to provide leadership to the Board and formulate the Group's business strategies. The Chief Executive Officer is responsible for the day to day operation of the Company and implementation of the development strategy adopted by the Board. Mr. Chu Kwok Chi Robert is the Chairman and Chief Executive Officer of the Company. The code provision A.2.2 of the CG Code stipulates that the chairman should ensure that all directors are properly briefed on issues arising at board meetings and the code provision A.2.3 of the CG Code stipulates that the chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner. During the year 2012, the office of the chairman of the Company is vacant. The Company recognizes the importance of the duties of the chairman and will identify a high caliber executive to take up the role as soon as possible.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group. The Group's Independent non-executive Directors have been appointed to hold office until the next Annual General Meeting and shall retire and offer themselves for re-election according to the Company's Bye-laws.

All Independent Non-executive Directors are financially independent from the Company and any of its subsidiaries.

Each of the Independent Non-executive Directors has given a written confirmation to the Company confirming that he has met the criteria set out in Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of the independence of directors.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:–

1. Audit Committee
2. Remuneration Committee
3. Nomination Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limit of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

1) Audit Committee

a) Composition of Audit Committee members

Mr. Cheung Yuk Ming *(Chairman)*
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

b) Role and function

The Audit Committee is mainly responsible for:

i. reviewing the financial statements and reports and considering any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.

ii. reviewing the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and making recommendations to the Board on the appointment, reappointment and removal of external auditors.

iii. reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control and risk management system and associated procedures.

c) Meeting records

Two meetings were held for the year ended 31 December 2012 and the attendance of each committee member is set out as follows:

Name of Committee	**Number of Committee Members meetings attended in 2012**
Mr. Cheung Yuk Ming *(Chairman)*	2/2
Mr. Qian Zhi Hui	2/2
Mr. Zhu Tiansheng	2/2

During the meeting, the Audit Committee discussed the following matters:–

i. Financial Reporting

The Audit Committee reviewed with the Chief Executive Officer, the Company Secretary and the Financial Controller of the Company the Final Results for the year ended 31 December 2011 and the Interim Results for the period ended 30 June 2012.

ii. *External Auditors*

The Audit Committee reviewed the audit fee for the year ended 31 December 2011 and recommended it to the Board.

The Audit Committee reviewed the Audit Committee Report prepared by Deloitte Touche Tohmatsu for the year ended 31 December 2011.

2) Remuneration Committee

a) Composition of Remuneration Committee members

Mr. Qian Zhi Hui *(Chairman)*
Mr. Chu Kwok Chi Robert
Mr. Zhu Tiansheng

b) Role and function

The Remuneration Committee is mainly responsible for:

i. reviewing any significant changes in human resources policies and structure made in line with prevailing trends and business developments.

ii. making recommendations to the Board on the Company's policy and the structure of all remuneration of Directors and senior management as well as on the establishment of formal and transparent procedures for developing policy on such remuneration;

iii. reviewing and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and

iv. ensuring that no Director or any of his associates is involved in deciding his or her own remuneration.

c) Meeting Records

One meeting was held for the year ended 31 December 2012 and the attendance of each committee member is set out as follows:

Name of Committee Members	Number of Committee meetings attended in 2012
Mr. Qian Zhi Hui *(Chairman)*	1/1
Mr. Chu Kwok Chi Robert	1/1
Mr. Zhu Tiansheng	1/1

During the year under review, the Remuneration Committee reviewed the policies for the remuneration of Directors and senior management of the Group, the staff costs and headcount of the Group. The Remuneration Committee also reviewed the remuneration package of the Directors and the senior management to ensure they are in line with the market.

3) Nomination Committee

a) Composition of Nomination Committee members

Mr. Qian Zhi Hui *(Chairman)*
Mr. Chu Kwok Chi Robert
Mr. Zhu Tiansheng

b) Role and function

The Nomination Committee is mainly responsible for:

i. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;

ii. identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for Directorships;

iii. assessing the independence of Independent Non-executive Directors; and

iv. making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer.

c) Meeting Records

One meeting was held for the year ended 31 December 2012 and the attendance of each committee member is set out as follows:

Name of Committee Members	**Number of Committee meetings attended in 2012**
Mr. Qian Zhi Hui *(Chairman)*	1/1
Mr. Chu Kwok Chi Robert	1/1
Mr. Zhu Tiansheng	1/1

During the meeting, the Nomination Committee discussed for the need of segregating the duties of Chairman and the Chief Executive Officer and unanimously agreed to identify a high caliber executive to take up either one of the roles. Suitable candidate has not yet been identified but the Nomination Committee members would continue to look for the right person for the posts and recommend to the Board.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for preparing the accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Directors also ensure that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting policies.

In preparing the financial statements, the Directors consider that the financial statements of the Group are prepared on a going concern basis and appropriate accounting policies have been consistently applied. The Directors have also made judgments and estimates that are prudent and reasonable in the preparation of the financial statements.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 34-35.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Group's system of internal control so as to maintain sound and effective controls to safeguard the shareholders' investment and the assets of the Group.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. This process includes continuous updating of the internal control system of the Group in response to the changing business environment and regulatory requirements. The Board is also conducting a review of the internal controls of the Group to ensure that the policies and procedures in place are adequate.

EXTERNAL AUDITORS

The Board acknowledges its responsibility for preparing the financial statements of the Group. In preparing the financial statements, the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants have been adopted. The principal accounting policies adopted for the preparation of financial statements of the Group, which have been consistently applied, are set out in note 4 to the financial statements.

It is the auditors' responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

During the year under review, the remuneration paid to the Company's external auditors, Messrs Deloitte Touche Tohmatsu was as follows:

Nature of services	Fee paid/payable HK$'000
Audit services	3,050

COMMUNICATION WITH SHAREHOLDERS

The Company uses various communication methods to ensure its Shareholders are kept well informed of key business imperatives. These include general meetings, annual report, various notices, announcements and circulars. The poll voting procedures and the rights of Shareholders to demand a poll were included in all circulars accompanying notices convening general meeting and the detailed procedures for conducting a poll had been read out by the Company Secretary at general meetings.

The annual general meeting provides a useful forum for Shareholders to exchange views with the Board. The Chairman, Directors, Board Committees" Chairman/Members and external auditor are available to answer questions at the meeting. To ensure all Shareholders timely access to important corporate information, the Company utilizes its corporate website to disseminate to the Shareholder information such as announcements, circulars, annual and interim reports.

The directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The Company is an investment holding company. Its subsidiaries are principally engaged in petroleum exploration and production, metals transactions and trading of petroleum related products. Particulars of the Company's principal subsidiaries are set out in note 42 to the consolidated financial statements. An analysis of the Group's performance for the year by operating and reportable segments is set out in note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2012 (the "Year") are set out in the consolidated statement of comprehensive income on page 36.

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2012.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 103.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of movement during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

PURCHASE, SALES AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

RESERVES

Movements in reserves of the Group during the year are set out in consolidated statement of changes in equity on page 38.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Chu Kwok Chi Robert
Mr. Hong Kin Choy

Independent Non-executive Directors:

Mr. Cheung Yuk Ming
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

Biographical details of Directors of the Company are set out on page 14 under the section titled "Directors and Senior Management Profile".

In accordance with Article 99(A) of the Company's bye-laws, all Directors, except the Managing Director, shall retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company in accordance with the Company's bye-laws.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considers such Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, or any of its subsidiaries, its holding company, or any subsidiaries of its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company and the Group was entered into or existed during the year.

COMPETING INTEREST

None of the Director or their respective associates (as defined in the Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which 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 were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

LONG POSITIONS IN THE SHARES AND UNDELYING SHARES OF THE COMPANY

Director	Nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital (note 1)
Chu Kwok Chi Robert	Personal	33,852,938	1.0814%
Zhu Tiansheng	Personal	270,000	0.0086%

Note:

1. The calculation of percentages is based on 3,130,377,588 Shares of the Company in issue as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, no Directors or Chief Executive have any interests or short position 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 would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required in the Listing Rules pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, according to the register of interests maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") and so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons, other than the Directors and the chief executive of the Company, who had an interest or a short position 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 who were, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital were as follows:

LONG/SHORT POSITIONS IN THE SHARES AND UNDELYING SHARES OF THE COMPANY

Name of Shareholders	Long/short position	Capacity/ nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital (note 2)
City Smart International Investment Limited (note 1)	Long	Beneficial owner	7,466,856	0.24%
City Wise Investment Limited (note 1)	Long	Beneficial owner	398,232,975	12.72%
South America Petroleum Investment Holdings Limited (note 1)	Long	Interest of a controlled corporation	398,232,975	12.72%
Mr. Wu Shaozhang (note 1)	Long	Interest of a controlled corporation	405,699,831	12.96%

Notes:

1. So far is known to the Directors, City Smart International Investment Limited, South America Petroleum Investment Holding Limited and City Wise Investment Limited are beneficially wholly-owned by Mr. Wu Shaozhang.

2. The calculation of percentages is based on 3,130,377,588 Shares of the Company in issue as at 31 December 2012.

Saved as disclosed above, as at 31 December 2012, so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, no persons 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 who are, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or has any options in respect of such capital.

EMOLUMENT POLICY

The emolument of the employees of the Group is set up by the human resources department and seeks to provide remuneration packages on the basis of the merit, qualifications and competence of the employees. The emoluments of the Directors and senior management of the Company will be reviewed by the Remuneration Committee, having regard to factors including the Group's operating results, responsibilities of the Directors and senior management and comparable market statistics.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits schemes of the Group are set out in note 35 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted for a period of 10 years commencing 6 November 2006 pursuant to an Ordinary Resolution passed at the Special General Meeting of the Shareholders held on 6 November 2006 for the purpose of providing incentives or rewards to selected employees and directors for their contribution to the Group.

Under the Scheme, the Company may grant options to selected employees and directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible vendors, customers, advisors and consultants to the Company and its subsidiaries at the discretion of the Board Of Directors.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, Independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholders, Independent non-executive directors, or any of their respective associates) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be also approved by the Company's shareholders.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options which must be a business day; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

As at 31 December 2012, options to subscribe for an aggregate of 152,379,999 shares of the Company granted to the Directors and certain employees pursuant to the Scheme remained outstanding, details of which were as follows:

Name and category of participant	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK$	Outstanding at 1.1.2012	Granted during the year	Lapsed during the year	Cancelled during the year	Adjustment	Outstanding at 31.12.2012
Independent Non-executive Director									
Mr. Zhu Tiansheng	19 March 2010	19 March 2010–9 February 2013	1.610*	90,000	–	–	–	–	90,000
	19 March 2010	10 November 2010–9 February 2013	1.610*	90,000	–	–	–	–	90,000
	19 March 2010	10 August 2011–9 February 2013	1.610*	90,000	–	–	–	–	90,000
Employees	10 February 2010	10 February 2010–9 February 2013	1.564*	2,096,667	–	–	–	–	2,096,667
	10 February 2010	10 November 2010–9 February 2013	1.564*	2,096,667	–	–	–	–	2,096,667
	10 February 2010	10 August 2011–9 February 2013	1.564*	2,096,667	–	–	–	–	2,096,667
Other participants	10 February 2010	10 February 2010–9 February 2013	1.564*	1,939,999	–	–	–	–	1,939,999
	10 February 2010	10 November 2010–9 February 2013	1.564*	1,939,999	–	–	–	–	1,939,999
	10 February 2010	10 August 2011–9 February 2013	1.564*	1,940,000	–	–	–	–	1,940,000
	11 October 2011	11 October 2011–10 October 2013	0.141**	140,000,000	–	–	–	–	140,000,000
				152,379,999	–	–	–	–	152,379,999

* This reflects the adjusted share price on grant date after the completion of the consolidation of shares on 23 June 2011.

** This reflects the share price on grant date after the completion of the consolidation of shares on 23 June 2011.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sale attributable to the Group's five largest customers represented approximately 100% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 93% of total sales. The Group has no purchase recognised for the year.

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers as noted above.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

EMPLOYEES

As at 31 December 2012, the Group had a total of about 9 employees in Hong Kong, 9 employees in Argentina and 6 employees in PRC. Employee's cost (excluding directors' emoluments) amounted to approximately HK$13.97 million (2011: HK$20.99 million). The Group ensures that the pay levels of its employees are competitive according to market trend and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

SUFFICIENCY OF PUBLIC FLOAT

Based on information available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the Public as of the date of this report.

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in note 40 to the consolidated financial statements.

AUDITORS

The accounts for the year have been audited by Messrs. Deloitte Touche Tohmatsu who shall retire and, being eligible, shall offer themselves for re-appointment.

On behalf of the Board
Chu Kwok Chi Robert
Executive Director and CEO

28 March 2013

Deloitte.
德勤

TO THE MEMBERS OF EPI (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of EPI (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 102, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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, in accordance with Section 90 of the Bermuda Companies Act, 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.

TO THE MEMBERS OF EPI (HOLDINGS) LIMITED – continued

(incorporated in Bermuda with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Revenue	6	**86,682**	619,800
Cost of sales	7		
– depreciation of property, plant and equipment		**(36,909)**	(27,720)
– other costs		**(36,382)**	(589,941)
Other gains and losses	8	**24,754**	(12,965)
Distribution and selling expenses		**(1,039)**	(10,531)
Administrative expenses		**(59,911)**	(73,511)
Impairment loss recognised in respect of exploration and evaluation assets	17(a)	**(3,130,106)**	–
Other expenses	9	**(153,853)**	(96,132)
Finance costs	10	**(34,925)**	(34,679)
Loss before taxation		**(3,341,689)**	(225,679)
Taxation (charge) credit	11	**(10,351)**	7,942
Loss for the year	12	**(3,352,040)**	(217,737)
Other comprehensive (expense) income:			
Reclassification adjustment for the cumulative gain of available-for-sale investments included in profit or loss upon disposal		**(57,176)**	–
Reversal of deferred tax liabilities upon disposal of available-for-sale investments		**5,718**	–
Other comprehensive expense for the year		**(51,458)**	–
Total comprehensive expense for the year attributable to owners of the Company		**(3,403,498)**	(217,737)
Loss per share	16		
– basic		**HK$(1.26)**	HK$(0.11)
– diluted		**HK$(1.26)**	HK$(0.11)

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Exploration and evaluation assets	17	648,468	3,837,156
Property, plant and equipment	18	204,456	340,843
Deferred tax assets	19	–	9,870
Other tax recoverable	20	48,878	54,148
		901,802	4,242,017
Current assets			
Trade and other receivables	21	232,188	186,013
Available-for-sale investments	22	–	67,600
Held-for-trading investments	23	37	52
Bank balances and cash	24	2,680	29,509
		234,905	283,174
Current liabilities			
Trade and other payables	25	95,516	169,780
Taxation payable		–	777
Borrowings – amount due within one year	26	65,808	56,328
Convertible notes	27	25,927	–
		187,251	226,885
Net current assets		47,654	56,289
Total assets less current liabilities		949,456	4,298,306
Non-current liabilities			
Borrowings – amount due after one year	26	273,000	296,400
Convertible notes	27	–	74,661
Deferred tax liabilities	19	–	6,574
Assets retirement obligation	28	2,854	1,730
		275,854	379,365
		673,602	3,918,941
Capital and reserves			
Share capital	29	313,038	215,088
Reserves		360,564	3,703,853
Equity attributable to owners of the Company		673,602	3,918,941

The consolidated financial statements on pages 36 to 102 were approved and authorised for issue by the Board of Directors on 28 March 2013 and are signed on its behalf by:

Chu Kwok Chi, Robert
DIRECTOR

Hong Kin Choy
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company							
	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000 (note b)	**Investments revaluation reserve** HK$'000	**Contributed surplus reserve** HK$'000 (note a)	**Share options reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2011	185,088	3,853,585	61,721	51,458	60,322	32,267	(192,406)	4,052,035
Loss for the year and total comprehensive expense for the year	–	–	–	–	–	–	(217,737)	(217,737)
Recognition of share-based payment expense	–	–	–	–	–	7,480	–	7,480
Issue of new shares	30,000	110,660	(61,721)	–	–	–	–	78,939
Transaction costs attributable to issue of new shares	–	(1,776)	–	–	–	–	–	(1,776)
At 31 December 2011	215,088	3,962,469	–	51,458	60,322	39,747	(410,143)	3,918,941
Reclassification adjustment for the cumulative gain of available-for-sale investments included in profit or loss upon disposal	–	–	–	(57,176)	–	–	–	(57,176)
Reversal of deferred tax liabilities upon disposal of available-for-sale investments	–	–	–	5,718	–	–	–	5,718
Loss for the year	–	–	–	–	–	–	(3,352,040)	(3,352,040)
Total comprehensive expense for the year	–	–	–	(51,458)	–	–	(3,352,040)	(3,403,498)
Issue of new shares	69,000	36,300	–	–	–	–	–	105,300
Transaction costs attributable to issue of new shares	–	(4,528)	–	–	–	–	–	(4,528)
Conversion of convertible notes	28,950	28,437	–	–	–	–	–	57,387
At 31 December 2012	**313,038**	**4,022,678**	**–**	**–**	**60,322**	**39,747**	**(3,762,183)**	**673,602**

Notes:

(a) The contributed surplus reserve represents the credit arising from the capital reduction in 2006.

(b) On 22 December 2010, the Company entered into a subscription agreement with Rich Concept (as defined in note 29(b)(i)), a shareholder of the Company, to allot and issue 920,000,000 new ordinary shares of HK$0.01 each at the price of HK$0.0675 per share. The subscription agreement is conditional upon completion of the placing of 920,000,000 issued ordinary shares of the Company made by the placing agent on behalf of Rich Concept. The placing of issued shares then held by Rich Concept was completed on 22 December 2010 with net proceeds amounting to HK$61,721,000 being remitted to the Company which shall be applied as part settlement as subscription money for the new shares to be issued to Rich Concept. The subscription of new shares by Rich Concept was completed on 3 January 2011 (see also note 29(b)(i)).

Details of the above are set out in the Company's announcements dated 22 December 2010 and 3 January 2011.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Operating activities		
Loss for the year	**(3,352,040)**	(217,737)
Adjustments for:		
Income tax charge (credit) recognised in profit or loss	**10,351**	(7,942)
Depreciation of property, plant and equipment	**37,374**	28,279
Impairment loss recognised in respect of exploration and evaluation assets	**3,130,106**	–
Impairment loss recognised in respect of property, plant and equipment	**132,906**	34,023
(Gain) loss on disposal of property, plant and equipment	**(962)**	1
Gain on disposal of available-for-sale investments	**(1,566)**	–
Interest income	**(6,370)**	(484)
Interest expense	**33,911**	24,277
(Gain) loss on derivative component of convertible notes	**(378)**	10,106
Loss on held-for-trading financial assets	**15**	–
Share-based payment expense	**–**	7,480
Operating cash flows before movements in working capital	**(16,653)**	(121,997)
(Increase) decrease in trade and other receivables	**(48,024)**	27,867
Decrease (increase) in other tax receivables	**13,106**	(29,353)
Decrease in held-for-trading financial assets	**–**	3,948
Decrease in trade and other payables	**(2,546)**	(12,040)
Decrease in derivative financial instruments	**–**	(10,596)
Cash used in operations	**(54,117)**	(142,171)
Tax paid	**(1,784)**	–
Net cash used in operating activities	**(55,901)**	(142,171)
Investing activities		
Purchase of property, plant and equipment	**(26,552)**	(207,987)
Payment for oil concession rights	**(20,248)**	–
Proceeds from disposal of available-for-sale investments	**12,000**	–
Proceeds from disposal of property, plant and equipment	**1,503**	5
Interest received	**43**	484
Additions of exploration and evaluation assets	**–**	(57,752)
Payment for acquisition of available-for-sale investments	**–**	(10,424)
Decrease in pledged bank deposits	**–**	26,340
Proceeds from disposal of subsidiary	**–**	1,000
Net cash used in investing activities	**(33,254)**	(248,334)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Financing activities		
Proceeds from issue of new shares	**105,300**	78,939
New other loans raised	**39,680**	133,873
Interest paid	**(24,526)**	(17,561)
Repayment of other loans	**(38,000)**	(93,145)
Repayment of bank borrowings	**(15,600)**	(135,677)
Expenses on issue of new shares	**(4,528)**	(1,776)
New bank borrowings raised	**–**	312,000
Proceeds from issue of convertible notes	**–**	62,100
Expenses on issue of convertible notes	**–**	(2,044)
Repayment of promissory notes	**–**	(1,899)
Net cash from financing activities	**62,326**	334,810
Net decrease in cash and cash equivalents	**(26,829)**	(55,695)
Cash and cash equivalents at beginning of the year	**29,509**	85,204
Cash and cash equivalents at end of the year, representing bank balances and cash	**2,680**	29,509

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of the principal place of business of the Company is Room 1401 on 14/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the petroleum exploration and production, metals transactions and trading of petroleum related products.

The functional currency of the Company is United States dollars ("US$") while the consolidated financial statements are presented in Hong Kong dollars ("HK$").

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The presentation currency of the consolidated financial statements is HK$. For the convenience of the financial statements users, the results and financial position of the Group are presented in HK$ as the Company's shares are listed on the Stock Exchange.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred tax: Recovery of underlying assets
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements to HKFRSs 2009-2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC)-INT 20	Stripping costs in the production phase of a surface mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2012) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC)-INT 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in joint ventures", HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC)-INT 13 "Jointly controlled entities – Non-monetary contributions by venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that these standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that under HKFRS 11, the Group's jointly controlled operations will be classified as joint operations, based on the rights and obligations of the parties to the joint arrangement. The application of these five standards will not have impact on amounts reported in the consolidated financial statements but will result in more extensive disclosures in the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

HKFRS 13 "Fair value measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. This standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the results and financial position of the Group.

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The amendments to HKAS 1 "Presentation of items of other comprehensive income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for the Group for the annual period beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, that are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Joint ventures

Jointly controlled operations

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the consolidated statement of financial position of the relevant entity on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included in the consolidated statement of comprehensive income when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Income from rendering of services, including procurement services, is recognised when the services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Oil and gas properties

Oil and gas properties are stated in the consolidated statement of financial position at cost less subsequent accumulated depletion, depreciation and amortisation and any accumulated impairment losses. The successful efforts method of accounting is used for oil and gas properties. Under this method, all costs for developed wells, support equipment and facilities, and for acquiring proven mineral interests in oil and gas properties are capitalised in oil and gas properties. Costs of exploratory wells are capitalised as construction in progress pending determination of whether the wells are found with proven oil and gas reserves. Proven oil and gas reserves are the estimated quantities of crude oil, natural gas and oil, with geological and engineering data to demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and are subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised in construction in progress only if additional drilling is underway or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any significant costs of unproved properties capitalised in oil and gas properties.

Depletion, depreciation and amortisation of capitalised costs of oil and gas properties is calculated on the unit-of-production basis over the total proven reserves of the relevant area. The unit-of-production rate for depletion, depreciation and amortisation of oil and gas properties, also takes into account the expenditure incurred to date, together with projected future development expenditure and the volume of oil and gas produced in the current year.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant and equipment – continued

Construction in progress

Construction in progress includes property, plant and equipment for production or for its own use purposes. Construction in progress is stated in the consolidated statement of financial position at cost less any recognised impairment loss. Construction in process in respect of exploratory wells is classified to oil and gas properties when production of oil starts. Construction in progress in respect of other assets is classified to the appropriate category of property, plant and equipment when construction is completed and the asset is ready for intended use. Depreciation of these assets on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property, plant and equipment

Property, plant and equipment other than oil and gas properties and construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than oil and gas properties and construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss.

Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. Costs of exploratory wells (pipelines, drilling cost and others) are capitalised pending the determination of whether sufficient quantities of potentially economic oil and gas reserves have been discovered. The related well costs are expensed if it is determined that such economic viability is not attained within one year of completion of drilling.

Exploration and evaluation assets include the cost of exploration rights and the expenditures incurred in search for natural resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.

When the technical feasibility and commercial viability of extracting natural resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as construction in progress oil and gas properties. These assets are assessed for impairment before reclassification.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Exploration and evaluation assets – continued

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment loss in accordance with HKAS 36 "Impairment of assets" and whenever one of the following events or changes in circumstances indicates that the carrying amount may not be recoverable:

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of natural resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of natural resources in the specific area have not led to the discovery of commercially viable quantities of natural resources and the Group has decided to discontinue such activities in the specific area.
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets comprise financial assets at fair value through profit or loss ("FVTPL"), available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is excluded from net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity held by the Group that are classified as available-for-sale ("AFS") and are traded in an active market are measured at fair value at the end of the reporting period. Changes in the carrying amount of AFS assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Impairment of financial assets – continued

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and as equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Convertible notes contains liability component and conversion option derivative

Convertible notes issued by the Group contain both liability and conversion option components. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments – continued

Derivative financial instruments

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under contract, as determined in accordance with HKAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Other financial liabilities

Financial liabilities including trade and other payables, liability component of convertible notes and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to 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 continue to be held in share options reserve.

Share options granted to other suppliers of goods and services

Share options issued in exchange for goods or services are measured at the fair value of the goods or services received, unless the fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair value of the goods or services are recognised as expenses with a corresponding increase in equity, when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation – continued

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Retirement benefits costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Schemes ("MPF Schemes") are recognised as an expense when employees have rendered service entitling them to the contributions.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Foreign currencies – continued

For the purposes of presenting the consolidated financial statements in Hong Kong dollars, the assets and liabilities of the group entities are translated into Hong Kong dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve. Translation differences relating to a foreign operation are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Assets retirement obligation

The Group is required to make payments for restoration and rehabilitation of the land at the end of the productive life of oil and gas fields. Provision for restoration cost is required when the Group has a present obligation as a result of past event, and it is probable that the Group will be required to settle that obligation. Provision is measured in accordance with the relevant rules and regulations applicable in the relevant jurisdictions at the end of the reporting period, and is discounted to their present value where the effect is material.

Restoration cost is recorded in the period in which the obligation is identified and is capitalised to the costs of oil and gas properties. This cost is charged to profit or loss through amortisation of the assets, which are amortised using the unit-of-production method based on the actual production volume over the estimated total proved and probable reserves of the developed wells.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of trade and other receivables

Allowance for trade and other receivables is made based on the evaluation of collectability and ageing analysis of accounts. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment 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 (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the aggregate carrying amount of trade and other receivables (excluding prepayments to other suppliers) is HK$232,188,000 (2011: HK$30,013,000).

Estimation of petroleum reserves

Petroleum reserves are key elements in the Group's investment decision-making process. They are also an important element in determining the amount of depreciation for oil and gas properties and for testing impairment of property, plant and equipment and exploration and evaluation assets. Changes in proven oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depletion, depreciation and amortisation recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proven developed reserves will increase depletion, depreciation and amortisation charges (assuming constant production) and reduce net profit or increase net loss. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of oil and gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

Impairment of oil and gas properties

The carrying amounts of the oil and gas properties are assessed for impairment when facts and circumstances suggest that the carrying amounts of the oil and gas properties may exceed their recoverable amounts. The Group's determination as to whether the oil and gas properties are impaired requires an estimation of the recoverable amount of the assets. The Group relies on experts to assess the geological prospects for the discovery of oil and gas in the oil field and estimates the value of oil and gas to be produced in the future at a suitable discount rate in order to calculate the present value. For drilling costs and other exploration and evaluation assets, the Group determines whether the related well costs are expensed if it is determined that such economic viability is not attained after performing further feasibility studies that is usually completed within one year of completion of drilling. The Group's carrying value of oil and gas properties as at 31 December 2012 was HK$203,574,000 (2011: HK$253,768,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Impairment of exploration and evaluation assets

The carrying amounts of the exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amounts of the exploration and evaluation assets may exceed their recoverable amounts. The future recoverability of exploration and evaluation expenditure is dependent on a number of factors, including the level of proved and probable petroleum reserves, future technological changes which could impact the cost of drilling, future changes relevant to regulations on exploration, drilling and production of oil and gas in Argentina, changes to the commodity prices, future drilling plan of the Group and the ability of raising financing to meet the drilling plan. The Group's determination as to whether the exploration and evaluation assets are impaired requires an estimation of the recoverable amount of the assets. The directors of the Company exercise their judgement in estimating the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise.

During the year ended 31 December 2012, the management decided to delay its drilling plan until the local political and economic outlook improve to more favourable conditions. This change has a significant impact on the related expected future cash flows from operation; therefore the management has assessed the impairment of the exploration and evaluation assets. The critical factors that the management assessed were the delay of the overall drilling plan and the discount rate used for the cash flow forecast. The Group's carrying value of exploration and evaluation assets as at 31 December 2012 was HK$648,468,000 (2011: HK$3,837,156,000). During the year ended 31 December 2012, an impairment loss of HK$3,130,106,000 (2011: nil) was recognised in respect of the exploration and evaluation assets. The recoverable amount of the exploration and evaluation assets was determined on the basis of value in use. Details of these are set out in note 17(a).

Fair value of embedded conversion option of convertible notes

The directors of the Company use their judgment in selecting an appropriate valuation technique to determine the fair value of embedded conversion option of the convertible notes which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of these derivative financial liabilities are determined at the end of the reporting period with movements in fair value recognised in profit or loss. In estimating the fair value of these derivative financial liabilities, the Group uses independent valuation which is based on various inputs and estimates based on quoted market rates and adjusted for specific features of the instrument (see note 27). If the inputs and estimates applied in the model are different, the carrying amount of these derivative financial liabilities will change. The carrying value of the conversion option of the convertible notes as at 31 December 2012 was HK$4,934,000 (2011: HK$17,664,000).

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received or receivable for goods sold by the Group to customers, less return, discounts and sales related taxes. An analysis of the Group's revenue for the year is as follows:

	2012 HK$'000	2011 HK$'000
Sales of goods		
– petroleum	80,854	42,554
– petroleum related products	–	577,246
Income from metals transactions (note)	5,828	–
	86,682	619,800

Note: The sales and purchase contracts of the metals transactions entered into during the year ended 31 December 2012 are for the purpose of procurement of the metals for the Group's customers and accordingly, the differences between the sales and purchase prices represent the income earned by the Group for its services rendered.

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Segment information

Information is reported to the Chief Executive Officer, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance.

For management purposes, the Group is currently organised into three operating divisions namely petroleum exploration and production, trading of petroleum related products and metals transactions. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group's operating and reportable segments under HKFRS 8 "Operating segments" are as follows:

Petroleum exploration and production	–	exploration and production of petroleum
Trading of petroleum related products	–	trading of chemical products related to petroleum
Metals transactions	–	trading of non-ferrous metals and entering into non-ferrous metals sales and purchase contracts for procurement of the metals for customers

The Group did not enter into any transaction within the trading of petroleum related products segment during the year ended 31 December 2012 as the market conditions for trading of these products in the relevant periods was not considered favourable for the Group to enter into such trading transactions.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments:

Year ended 31 December 2012

	Petroleum exploration and production HK$'000	Trading of petroleum related products HK$'000	Metals transactions HK$'000	Total HK$'000
Segment revenue (external sales)	80,854	–	468,032	548,886
Less: Cost of metals transactions	–	–	(462,204)	(462,204)
Revenue as presented in the consolidated statement of comprehensive income	80,854	–	5,828	86,682
Result				
Segment results excluding impairment	(5,463)	–	(148)	(5,611)
Impairment loss recognised	(3,263,012)	–	–	(3,263,012)
Segment loss	(3,268,475)	–	(148)	(3,268,623)
Unallocated other gains and losses				1,724
Unallocated corporate expenses				(39,865)
Finance costs				(34,925)
Loss before taxation				(3,341,689)

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Segment revenue and results – continued

Year ended 31 December 2011

	Petroleum exploration and production HK$'000	Trading of petroleum related products HK$'000	Metals transactions HK$'000	Total HK$'000
Segment revenue (external sales)	42,554	577,246	–	619,800
Result				
Segment results excluding impairment	(63,538)	1,353	41	(62,144)
Impairment loss recognised	(34,023)	–	–	(34,023)
Segment profit (loss)	(97,561)	1,353	41	(96,167)
Unallocated other gains and losses				(16,365)
Unallocated corporate expenses				(78,468)
Finance costs				(34,679)
Loss before taxation				(225,679)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represent the profit earned (loss made) by each segment without allocation of interest income, change in fair value of financial assets/liabilities classified as convertible notes and held-for-trading, central administrative expenses and finance costs. This is the measure reported to the Chief Executive Officer, the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment.

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

	2012 HK$'000	2011 HK$'000
Segment assets		
Petroleum exploration and production	867,089	4,208,230
Trading of petroleum related products	–	156,238
Metals transactions	201,014	–
Total segment assets	1,068,103	4,364,468
Unallocated	68,604	160,723
Consolidated assets	1,136,707	4,525,191
Segment liabilities		
Petroleum exploration and production	46,378	145,697
Metals transactions	16,781	–
Total segment liabilities	63,159	145,697
Unallocated	399,946	460,553
Consolidated liabilities	463,105	606,250

For the purposes of monitoring segment performances and allocating resources between segments:

– all assets are allocated to reportable segments other than deferred tax assets, other tax recoverable, held-for-trading investments, available-for-sale investments and assets used jointly by reportable segments.

– all liabilities are allocated to reportable segments other than deferred tax liabilities, convertible notes, borrowings and liabilities for which reportable segments are jointly liable.

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Other segment information

Year ended 31 December 2012

	Petroleum exploration and production HK$'000	Trading of petroleum related products HK$'000	Metals transactions HK$'000	Unallocated HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Capital additions	**26,321**	**–**	**–**	**231**	**26,552**
Depreciation	**37,265**	**–**	**1**	**108**	**37,374**
Impairment loss recognised in respect of exploration and evaluation assets	**3,130,106**	**–**	**–**	**–**	**3,130,106**
Impairment loss recognised in respect of property, plant and equipment	**132,906**	**–**	**–**	**–**	**132,906**

Year ended 31 December 2011

	Petroleum exploration and production HK$'000	Trading of petroleum related products HK$'000	Metals transactions HK$'000	Unallocated HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Capital additions	207,986	–	–	1	207,987
Depreciation	28,089	4	–	186	28,279
Impairment loss recognised in respect of property, plant and equipment	34,023	–	–	–	34,023
Gain on change in fair value of derivative financial instruments	–	–	(41)	–	(41)

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Geographical information

The Group's operations are located in the People's Republic of China (the "PRC"), Hong Kong and Argentina.

The Group's revenue from external customers based on the location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Argentina	**80,854**	42,554	**852,623**	4,177,491
PRC	**3,660**	577,246	**–**	–
Hong Kong	**2,168**	–	**301**	508
	86,682	619,800	**852,924**	4,177,999

Non-current assets excluded deferred tax assets and other tax recoverable.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2012 HK$'000	2011 HK$'000
Customer A[1]	**80,854**	–
Customer B[2]	**–**	169,149
Customer C[2]	**–**	93,362
Customer D[2]	**–**	88,725
Customer E[2]	**–**	85,320
Customer F[2]	**–**	71,829
Customer G[2]	**–**	68,861

1 Revenue from petroleum exploration and production.
2 Revenue from trading of petroleum related products.

7. COST OF SALES

Cost of sales included HK$73,291,000 (2011: HK$617,661,000), representing cost of inventories recognised as expenses.

8. OTHER GAINS AND LOSSES

	2012 HK$'000	2011 HK$'000
Bank interest income	–	484
Other interest income	43	–
Imputed interest on other tax recoverable	6,327	–
Total interest income	6,370	484
Gain (loss) on derivative component of convertible notes	378	(10,106)
Fair value loss on held-for-trading financial assets (note a)	(15)	(6,743)
Fair value gain on derivative financial instruments	–	41
	363	(16,808)
Gain on disposal of property, plant and equipment	962	–
Gain on disposal of available-for-sale investments	1,566	–
Government grants (note b)	14,746	–
Others	747	3,359
	24,754	(12,965)

Notes:

(a) The amount in 2011 included a loss of HK$6,566,000 incurred upon disposal of held-for-trading securities pledged as securities for a loan from an independent third party.

(b) The amount represented government subsidy obtained for the Group's oil exploration and production in Argentina.

9. OTHER EXPENSES

	2012 HK$'000	2011 HK$'000
Expenses incurred in exploring potential investment opportunities	17,331	49,984
Impairment loss recognised in respect of property, plant and equipment	132,906	34,023
Irrecoverable value-added tax expense (note 20)	3,616	12,124
Loss on disposal of property, plant and equipment	–	1
	153,853	96,132

10. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings and overdrafts	2	10,097
Promissory notes	–	22
Other loans	7,973	6,960
Interest on borrowings not wholly repayable within five years:		
Bank borrowings	13,281	2,699
Effective interest expense on convertible notes (note 27)	9,031	4,499
Compensation charge for late payments to supplier in relation to petroleum exploration and production	3,624	–
Total interest expense	33,911	24,277
Loan arrangement fees for other loans	1,014	1,496
Arrangement fee paid for share mortgage provided by Rakata Limited (as defined in note 26(d)) (note 40)	–	2,340
Share-based payment expense for loan arrangement	–	6,566
	34,925	34,679

11. TAXATION

	2012 HK$'000	2011 HK$'000
The (charge) credit comprises:		
Current tax:		
Hong Kong	–	–
Other jurisdictions	(1,026)	(777)
	(1,026)	(777)
Underprovision in prior years:		
Hong Kong	(311)	–
	(1,337)	(777)
Deferred tax (charge) credit (note 19)	(9,014)	8,719
Total (charge) credit	(10,351)	7,942

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax has been made as there is no assessable profit arising in Hong Kong in both years.

Argentina income tax is calculated at 35% of assessable profit for the year. No provision for Argentina income tax has been made as there is no assessable profit arising in Argentina in both years. However, a minimum presumptive tax is levied on all assets located in Argentina or in foreign countries owned by companies domiciled in Argentina or branches of foreign companies located in Argentina. The tax rate is 1% on the assessable assets.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The taxation for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000
Loss before taxation	(3,341,689)	(225,679)
Tax at the applicable rates of 16.5% (2011: 16.5%)	551,379	37,237
Tax effect of income not taxable for tax purpose	5,426	105
Tax effect of expenses not deductible for tax purpose	(549,319)	(18,679)
Tax effect of tax losses not recognised as deferred tax asset	(9,536)	(13,422)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(8,056)	2,806
Others	(245)	(105)
Tax (charge) credit for the year	(10,351)	7,942

At 31 December 2012, the Group had unused tax losses of HK$232,348,000 (2011: HK$174,909,000) available for offset against future profits. Deferred tax asset in respect of HK$28,200,000 of the unused tax losses had been recognised as at 31 December 2011. The corresponding deferred tax asset of HK$9,870,000 has been reversed in full as at 31 December 2012. No deferred tax asset has been recognised in respect of the remaining unused tax losses due to the unpredictability of future profit streams. Included in unused tax losses are losses of HK$105,542,000 (2011: HK$70,854,000) that will expire in 2015 to 2017 (2011: 2015 to 2016). All other tax losses may be carried forward indefinitely.

12. LOSS FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Loss for the year has been arrived at after charging:		
Directors' remuneration (note 13)	**2,939**	5,907
Other staff's retirement benefits costs	**130**	421
Other staff share-based payment expense	**–**	895
Other staff costs	**13,840**	19,675
Total staff costs	**16,909**	26,898
Auditor's remuneration	**3,050**	3,050
Depreciation of property, plant and equipment	**37,374**	28,279
Exchange loss, net	**8,878**	4,657
Minimum lease payments under operating leases in respect of office properties and buildings	**3,289**	4,389

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

	2012 HK$'000	2011 HK$'000
Fees	**450**	458
Other emoluments		
Salaries and other benefits	**2,462**	5,396
Share-based payments	**–**	19
Retirement benefits scheme contributions	**27**	34
	2,939	5,907

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – CONTINUED

The emoluments paid or payable to each of the five (2011: nine) directors and the chief executive were as follows:

2012

Name	Fees HK$'000	Other emoluments: Salaries and other benefits HK$'000	Share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors					
Chu Kwok Chi, Robert	–	910	–	14	924
Hong Kin Choy	–	1,552	–	13	1,565
Independent non-executive directors					
Cheung Yuk Ming	150	–	–	–	150
Qian Zhi Hui	150	–	–	–	150
Zhu Tiansheng	150	–	–	–	150
Total emoluments	450	2,462	–	27	2,939

2011

Name	Fees HK$'000	Salaries and other benefits HK$'000	Share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors					
Chu Kwok Chi, Robert	–	1,210	–	12	1,222
Hong Kin Choy (note a)	–	1,020	–	8	1,028
Wong Chi Wing, Joseph (note b)	–	3,058	–	12	3,070
Zhou Jacky (note c)	–	108	–	2	110
Non-executive director					
Leung Hon Chuen (note d)	37	–	–	–	37
Independent non-executive directors					
Cheung Yuk Ming (note e)	84	–	–	–	84
Poon Kwok Shin (note f)	37	–	–	–	37
Qian Zhi Hui	150	–	–	–	150
Zhu Tiansheng	150	–	19	–	169
Total emoluments	458	5,396	19	34	5,907

Notes:

(a) Appointed on 1 May 2011.
(b) Resigned on 20 December 2011.
(c) Resigned on 16 February 2011.
(d) Resigned on 17 March 2011.
(e) Appointed on 10 June 2011.
(f) Resigned on 11 March 2011.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – CONTINUED

Chu Kwok Chi, Robert is also the chief executive of the Company in 2012 and his emoluments disclosed above include those for services rendered by him as the chief executive.

Wong Chi Wing, Joseph was the chief executive of the Company in 2011 and his emoluments disclosed above include those for services rendered by him as the chief executive.

There was no arrangement under which a director and the chief executive waived or agreed to waive remuneration during both years. In addition, no remuneration was paid by the Group to any of the directors and the chief executive as an inducement to join, or upon joining the Group or as compensation for loss of office.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2011: two) were directors and the chief executive of the Company whose emoluments are included in the disclosures in note 13. The emoluments of the remaining three (2011: three) individuals, nil (2011: one) of whom was appointed as an executive director during the year, were as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	**2,749**	3,778
Retirement benefits scheme contributions	**14**	24
	2,763	3,802

Their emoluments were within the following bands:

	2012 No. of employees	2011 No. of employees
HK$nil to HK$1,000,000	**3**	1
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**–**	1

15. DIVIDEND

No dividend was paid or declared during 2012 (2011: nil), nor has any dividend been proposed since the end of the reporting period (2011: nil).

16. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2012 **HK$'000**	2011 HK$'000
Loss		
Loss for the purposes of basic and diluted loss per share (loss for the year attributable to owners of the Company)	**(3,352,040)**	(217,737)

	2012 **'000**	2011 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**2,670,736**	2,034,001

The computation of diluted loss per share for the years ended 31 December 2012 and 31 December 2011 does not assume the exercise of share options and convertible notes as the inclusion of the share options and convertible notes would result in decrease in loss per share.

17. EXPLORATION AND EVALUATION ASSETS

	Oil exploration rights HK$'000 (note a)	Others HK$'000 (note b)	Total HK$'000
COST			
At 1 January 2011	3,775,728	17,565	3,793,293
Additions	78,000	–	78,000
Transfer to property, plant and equipment	(16,572)	(17,565)	(34,137)
At 31 December 2011	3,837,156	–	3,837,156
Write-back (note 25(b))	(50,700)	–	(50,700)
Transfer to property, plant and equipment	(7,882)	–	(7,882)
At 31 December 2012	3,778,574	–	3,778,574
IMPAIRMENT			
Impairment loss recognised during the year ended 31 December 2012 and balance at 31 December 2012	3,130,106	–	3,130,106
CARRYING VALUES			
At 31 December 2012	648,468	–	648,468
At 31 December 2011	3,837,156	–	3,837,156

Notes:

(a) The amount relates to exploration and evaluation assets in respect of oil exploration rights through the participating interest in the Puesto Pozo Cercado Concession and Chañares Herrados Concession (collectively the "Concessions") as the concession of hydrocarbon exploitation concession in the Cuyana Basin, Mendoza Province, Argentina, covering a total surface area of approximately 169.4 and 40 square kilometers respectively (referred to as the "Areas" in note 31).

The Puesto Pozo Cercado Concessions was awarded to Chañares Herrados Empresa de Trabajos Petroleros S.A. ("Chañares"), the concessionaire. The term of this oil exploration and production concession is 25 years commencing from 26 June 1992, with the possibility of obtaining a 10-year extension under certain conditions.

The Chañares Herrados Concession was obtained by Chañares under an assignment agreement. The term of this oil exploration and production concession is 25 years commencing from 24 September 1992, with the possibility of obtaining a 10-year extension under certain conditions.

On 2 December 2010, Southstart Limited ("Southstart"), a wholly-owned subsidiary of the Company, and Chañares entered into another joint venture agreement ("New JV Agreement"). The Group agreed to pay US$6,000,000 (equivalent to approximately HK$46,800,000) to Chañares in consideration for the oil exploration and production right also in the Areas during the current term of the Concessions. Details of this are set out in note 31.

During the year ended 31 December 2011, Chañares obtained an extension of 10 years from the date of expiry of the original term of the Concessions under a Decree dated 30 June 2011 issued by the Executive of the Province of Mendoza. The Group shall pay an aggregate amount of US$4,000,000 (equivalent to approximately HK$31,200,000) to Chañares according to the New JV Agreement in consideration for the oil exploration and production right in the Areas during the extended term of the Concessions. As at 31 December 2011, the outstanding sum, amounting to US$2,596,000 (equivalent to approximately HK$20,248,000), was included in trade and other payables (see note 25(c)). This amount was fully paid during the year ended 31 December 2012.

During the year ended 31 December 2012, the directors of the Company conducted a review of the Group's exploration and evaluation assets and determined that the assets were impaired. The directors of the Company have decided to defer the Group's drilling plan until the local political and economic outlook improve to more favourable conditions. This change has a significant impact on the related expected future cash flows from operation. The management's change in business plan was a result of the unstable political and economic outlook of Argentina. During the current year, the Argentina government took more drastic measures to ensure growth and keep the currency stable, such as import restrictions and severe capital controls. These policies are exacerbating economic stagnation and leading to political unrest. Therefore, the directors of the Company decided to delay the Group's overall drilling plan to later years until the investment climate in Argentina is improved. This is a step that the directors of the Company consider best for the Group. This critical factor affected the timing of drilling new wells for oil production. The discount rate used for the impairment assessment in 2012 considers a more prudent view of the country risk of Argentina in view of the recent developments. This increase in the discount rate substantially lowered the net present value of the cash flows of the oil and gas fields. Accordingly, an impairment loss of HK$3,130,106,000 was recognised during the year ended 31 December 2012. The recoverable amount of the exploration and evaluation assets was determined based on the cash flow projections derived from estimated reserves covering the current term of the concessions period until 2027 with a discount rate of 14.1%.

(b) Others represent the geological and geophysical costs, drilling and exploration expenses directly attributable to exploration activities.

18. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1 January 2011	183,050	614	1,954	–	185,618
Additions	–	274	526	207,187	207,987
Transfer from exploration and evaluation assets	–	–	–	34,137	34,137
Transfer	155,866	–	–	(155,866)	–
Disposals	–	–	(18)	–	(18)
At 31 December 2011	338,916	888	2,462	85,458	427,724
Additions	26,281	–	271	–	26,552
Transfer from exploration and evaluation assets	–	–	–	7,882	7,882
Transfer	93,340	–	–	(93,340)	–
Disposals	–	(297)	(871)	–	(1,168)
At 31 December 2012	458,537	591	1,862	–	460,990
DEPLETION, DEPRECIATION, AMORTISATION AND IMPAIRMENT					
At 1 January 2011	23,405	169	1,017	–	24,591
Provided for the year	27,720	167	392	–	28,279
Impairment loss recognised in profit or loss	34,023	–	–	–	34,023
Eliminated on disposals	–	–	(12)	–	(12)
At 31 December 2011	85,148	336	1,397	–	86,881
Provided for the year	36,909	156	309	–	37,374
Impairment loss recognised in profit or loss	132,906	–	–	–	132,906
Eliminated on disposals	–	(200)	(427)	–	(627)
At 31 December 2012	254,963	292	1,279	–	256,534
CARRYING VALUES					
At 31 December 2012	203,574	299	583	–	204,456
At 31 December 2011	253,768	552	1,065	85,458	340,843

The above items of property, plant and equipment other than oil and gas properties and construction in progress, are depreciated on a straight-line basis, and after taking into account their estimated residual value, as follows:

Oil and gas properties	Unit-of-production basis over the total proven reserves
Motor vehicles	20%
Furniture, fixtures and equipment	20%-$33^{1}/_{3}$%

At 31 December 2012, the Group carried out a review of the recoverable amount of its oil and gas properties, having regard to the operating results in its developed oil and gas properties. The review led to the recognition of an impairment loss in profit and loss of HK$132,906,000 (2011: HK$34,023,000). The recoverable amount of the oil and gas properties was determined based on the cash flow projections derived from production reserves covering the current term of the concessions period until 2027 and the estimated future oil price with a discount rate of 14.1% (2011: 10.0%).

19. DEFERRED TAX

	2012 HK$'000	2011 HK$'000
Deferred tax assets	–	9,870
Deferred tax liabilities	–	(6,574)
	–	3,296

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Withholding tax HK$'000	Accrued expenses HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2011	(5,718)	295	–	(5,423)
(Charge) credit to profit or loss (note 11)	–	(1,151)	9,870	8,719
At 31 December 2011	(5,718)	(856)	9,870	3,296
Credit (charge) to profit or loss (note 11)	–	856	(9,870)	(9,014)
Credit to other comprehensive income upon disposal of available-for-sale investments	5,718	–	–	5,718
At 31 December 2012	–	–	–	–

20. OTHER TAX RECOVERABLE

Pursuant to the relevant rules and regulation in Argentina, value-added tax on expenditures incurred in drilling and purchase of property, plant and equipment relating to the petroleum exploration and production operation in Argentina can be used to offset future value-added tax on sales made. The management estimated the recoverable amount of the value-added tax based on the future revenue which the Group expects would be generated from sales of oil and gas, with reference to the current exploration and evaluation stages of the oil field and oil production from wells. During the year ended 31 December 2012, irrecoverable value-added tax expense of HK$3,616,000 (2011: HK$12,124,000) was recognised in profit and loss (note 9). The directors of the Company expects that an amount of HK$48,878,000 (2011: HK$54,148,000) will be recovered from the sales of oil and gas after twelve months from the end of the reporting period. Accordingly, such amount is classified as non-current.

21. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	3,945	8,416
Receivables arising from metals sales contracts (note a)	200,984	–
Other tax recoverable	13,553	15,062
Prepayments to other suppliers (note b)	–	156,000
Amount due from a former director (note c)	5,091	5,091
Other receivables and deposits	8,615	1,444
Total trade and other receivables	232,188	186,013

21. TRADE AND OTHER RECEIVABLES – CONTINUED

Notes:

(a) The term of metals sales transactions is based on cash on delivery and the receivables arising from metals sale contracts of HK$200,984,000 (2011: nil) at 31 December 2012 are past due with aging of 30 days based on the invoice date at the end of the reporting period. These past due receivables are all closely monitored. The management considers that these receivables will eventually be settled and therefore Group has not provided for impairment loss on these receivables. The Group does not hold any collateral over these balances.

(b) As at 31 December 2011, the prepayments to other suppliers represent the prepayments for purchase of chemical products related to petroleum in the trading of petroleum related products operation. The Group did not have make such purchase subsequently and the prepayments were refunded to the Group during the year ended 31 December 2012.

(c) At 31 December 2012, a loan of HK$25,000,000 (2011: HK$10,000,000) was secured by personal assets of Wong Chi Wing, Joseph. Amount due from a former director represents the advance to Wong Chi Wing, Joseph as securities for his assets pledged. The directors of the Company expect that Wong Chi Wing, Joseph will repay the outstanding balance when the loan owed by the Group to the loan lender is repaid and that charge of personal assets of Wong Chi Wing, Joseph pledged as securities is released (see note 36(c)(iii)). Particulars of the amount due from a former director are as follows:

Former director	Terms	Balance at 31.12.2012 HK$'000	Balance at 1.1.2012 HK$'000	Maximum amount outstanding during the year HK$'000
Wong Chi Wing, Joseph	Unsecured, interest-free and repayable on demand	5,091	5,091	5,091

Wong Chi Wing, Joseph resigned as an executive director of the Company on 20 December 2011.

The Group allows on average credit period of 30 to 60 days to its trade customers. At the discretion of the directors, several major customers are allowed to settle their balances beyond the normal credit terms up to 180 days. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2012 HK$'000	2011 HK$'000
0-30 days	3,945	1,457
31-60 days	–	1,341
61-90 days	–	1,541
91-120 days	–	4,077
	3,945	8,416

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and credit quality attributed to customers are reviewed regularly. As at 31 December 2012, 100% (2011: 82%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

As at 31 December 2012, included in the Group's trade receivable balance are debtors with an aggregate carrying amount of nil (31 December 2011: HK$1,541,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 60 days.

Aging of trade receivables which are past due but not impaired

	2012 HK$'000	2011 HK$'000
61-90 days	–	1,541

22. AVAILABLE-FOR-SALE INVESTMENTS

	2012 HK$'000	2011 HK$'000
Unlisted securities		
– Equity securities at fair value	–	67,600

The above unlisted investments at 31 December 2011 represented 40% equity investments in a private entity that was established in the British Virgin Islands and operates in the PRC. The Group has no right to appoint directors in the board and the remaining 60% equity interest is owned by one shareholder. The private entity's major asset is the holding of certain exploration rights of gold mines in the PRC. At 31 December 2011, the entity was in the process of obtaining exploitation permit of the gold mines. The Group signed a sale and purchase agreement to dispose of the available-for-sale investments with an independent third party (the "Purchaser") in November 2010. Due to delay in obtaining the exploitation permit, the Group signed a supplemental agreement with the Purchaser in August 2011 and the completion date of the disposal of the available-for-sale investments was extended to July 2012. As at 31 December 2011, the available-for-sale investments were measured at fair value and the fair value was determined to approximate the consideration of HK$67,600,000 as agreed with the Purchaser.

Prior to the extended completion date in July 2012, the Group was informed by the investee entity that it has not yet obtained the exploitation permit. As such, the Group signed a further supplemental agreement with the Purchaser in September 2012 to reduce the consideration to HK$12,000,000 on an "as is" basis.

The disposal was completed during the year ended 31 December 2012 and a gain of HK$1,566,000 was recognised in profit or loss.

23. HELD-FOR-TRADING INVESTMENTS

	2012 HK$'000	2011 HK$'000
Held-for-trading investments include:		
Listed securities		
– Equity securities listed in Hong Kong	37	52

The investments represent investments in listed equity securities in Hong Kong. The fair values of these securities at 31 December 2012 and 2011 are based on bid prices quoted on the Stock Exchange.

24. BANK BALANCES AND CASH

	2012 HK$'000	2011 HK$'000
Cash at banks and in hand	2,680	29,509

Bank balances carry interest at market rates which range from 0.01% to 1.25% (2011: 0.01% to 1.25%) per annum.

24. BANK BALANCES AND CASH – CONTINUED

In addition, included in the bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2012 HK$'000 Equivalent	2011 HK$'000 Equivalent
HK$	**121**	22,975
Argentina Peso ("ARS")	**2,351**	6,382

25. TRADE AND OTHER PAYABLES

	2012 HK$'000	2011 HK$'000
Trade payables	**34,447**	68,004
Payables arising from metals purchase contracts (note a)	**16,781**	–
Payables for assignment of oil concession rights (note b)	**–**	50,700
Payables for oil concession rights (note c)	**–**	20,248
Payables for acquisition of held-for-trading investments as securities to a loan (note d)	**16,115**	16,115
Interest payable on borrowings	**3,053**	2,699
Other payables and accruals (note e)	**25,120**	12,014
	95,516	169,780

Notes:

(a) The term of metals purchase transactions is based on cash on delivery and the payables arising from metals purchase contracts of HK$16,781,000 (2011: nil) at 31 December 2012 are past due with aging of 30 days at the end of the reporting period based on the invoice date.

(b) Pursuant to the assignment agreement dated 24 November 2007 as amended/supplemented by a document dated 19 December 2008 executed by and between Maxipetrol (as defined in note 31) and Have Result Investments Limited ("Have Result"), a wholly-owned subsidiary of the Company, Have Result was obliged to pay Maxipetrol US$20,000,000 (approximately HK$156,000,000) in consideration of Maxipetrol's assignment of 51% rights on the future production as a consequence of new drilling and operation of new wells in the Areas. As at 31 December 2011, the balance payable was US$6,500,000 (approximately HK$50,700,000).

The amount was reversed during the year ended 31 December 2012 because the Group, as advised by the Argentina legal advisors of the Company, no longer had any obligation for paying Maxipetrol as a result of the settlement of the legal dispute involving Maxipetrol and Chañares.

(c) During the year ended 31 December 2011, Chañares obtained an extension of 10 years from the date of expiry of the original terms of the Concessions. Pursuant to the New JV Agreement, the Group was obliged to pay an amount of US$4,000,000 (approximately HK$31,200,000) to Chañares. The outstanding sum at 31 December 2011, amounting to US$2,596,000 (approximately HK$20,248,000), was fully settled during the year ended 31 December 2012.

(d) The amount, which is interest-free and repayable on demand, represents the payable which arose from purchases of held-for-trading investments in 2011 as securities to a loan.

(e) The amount at 31 December 2012 included professional fees payable and accrued, amounting to HK$2,019,000, in respect of the proposed acquisition as set out in note 37.

25. TRADE AND OTHER PAYABLES – CONTINUED

The following is an aged analysis by invoice date of trade payables at the end of the reporting period:

	2012 HK$'000	2011 HK$'000
0-30 days	11,574	46,160
31-60 days	15	17,697
61-90 days	38	1,610
91-180 days	–	2,537
Over 180 days (note)	22,820	–
	34,447	68,004

Note: The Group has agreed with the supplier to settle the relevant amount a few months after the end of the reporting period.

The average credit period on purchases of goods is 30 days.

All of the other payables are unsecured, interest-free and expected to be settled within one year.

Included in trade payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities.

	2012 HK$'000 Equivalent	2011 HK$'000 Equivalent
ARS	14,481	25,114

26. BORROWINGS

	2012 HK$'000	2011 HK$'000
Bank loans	**296,400**	312,000
Other loans (note)	**42,408**	40,728
	338,808	352,728
Analysed as:		
Secured	**321,400**	312,000
Unsecured	**17,408**	40,728
	338,808	352,728
Carrying amount repayable:		
Within one year	**65,808**	56,328
In more than one year, but not more than two years	**54,600**	23,400
In more than two years, but not more than five years	**163,800**	163,800
In more than five years	**54,600**	109,200
	338,808	352,728
Less: Amounts due within one year shown under current liabilities	**(65,808)**	(56,328)
	273,000	296,400

Note: Other loans represent short-term loans from independent third parties.

On 3 November 2011, the Company entered into a loan agreement (the "Term Loan Agreement") with a bank for a term loan facility of US$40,000,000 (approximately HK$312,000,000) (the "Term Loan") for the purpose of funding the project in connection with the petroleum exploration and production in the Areas or to refinance any debt incurred by the Group for the purpose of this project. The Term Loan shall be repayable in seven annual instalments as follows:

	US$'000	Equivalent to HK$'000
Repayable in:		
November 2012	2,000	15,600
November 2013	3,000	23,400
November 2014	7,000	54,600
November 2015	7,000	54,600
November 2016	7,000	54,600
November 2017	7,000	54,600
November 2018	7,000	54,600
	40,000	312,000

Interest rate of the Term Loan is based on the aggregate of the London interbank borrowing rate plus 4% per annum. Interest is payable every six months from the drawdown date of 10 November 2011. Interest rates of the fixed-rate other loans amounting to HK$42,408,000 (2011: HK$40,728,000) as at 31 December 2012 range from 24% to 31% (2011: 24% to 31%) per annum.

26. BORROWINGS – CONTINUED

The ranges of effective interest rate (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	Effective interest rate		Carrying amount	
	2012	2011	**2012**	2011
			HK$'000	HK$'000
Fixed-rate borrowings	**24% to 31%**	24% to 31%	**42,408**	40,728
Variable-rate borrowings	**4.53%**	4.64%	**296,400**	312,000
			338,808	352,728

The Term Loan is secured by the following:

(a) Pledge of the entire stock capital of EP Energy (as defined in note 31). Details about EP Energy and the jointly controlled operation EP Energy is involved are set out in note 31.

(b) Mortgage of the entire issued share capital of Have Result.

(c) Mortgage of the entire issued share capital of two wholly-owned subsidiaries of the Company which together hold the entire stock capital of EP Energy.

The Term Loan is also guaranteed/secured by the following:

(d) Guarantee executed by Ample Talent Development Group Limited ("Ample Talent") which is incorporated in Hong Kong and is owned as to 100% by Rakarta Limited ("Rakarta"). Details about Rakarta are set out in (h) below.

(e) Security assignment in relation to the shareholder loan due to Ample Talent by a sino-foreign cooperative joint venture established in the PRC (the "Project Company") in favour of the bank.

(f) Mortgage of the entire issued share capital of Ample Talent (the "Ample Talent Share Mortgage").

(g) Pledge of 54% of the registered capital in the Project Company.

(h) Security assignment in relation to the shareholder loan due to Rakarta by Ample Talent in favour of the bank. Rakarta is a company incorporated in the British Virgin Islands and is owned as to 72% by Mr. Wu Shaozhang ("Mr. Wu").

Mr. Wu is interested in approximately 18.87% of the issued shares of the Company at the date of the Term Loan Agreement and approximately 12.96% at 31 December 2012 (2011: 18.86%). He is a substantial shareholder of the Company as defined in the Rules Governing the Listing of Securities on the Stock Exchange. The Term Loan Agreement contains a condition that if Mr. Wu ceases to be a substantial shareholder of the Company, the bank may, by not less than 60 days' notice to the Company, cancel the Term Loan and, among other things, all outstanding loans together with accrued interest will become immediately due and payable.

Mr. Wu has provided a written confirmation to the Company confirming that he will not dispose of his existing interest in the Company for at least a period of twelve months from the date of issuance of the Company's consolidated financial statements. As such, the portion of the Term Loan that is repayable after one year from the end of the reporting period in accordance with the repayment schedule above is shown under non-current liabilities.

26. BORROWINGS – CONTINUED

Included in bank and other borrowings are the following amounts of bank borrowings denominated in currency other than the functional currency of the relevant group entities:

	2012 HK$'000 Equivalent	2011 HK$'000 Equivalent
HK$	42,408	40,728

27. CONVERTIBLE NOTES

On 19 August 2011, the Company entered into a placing agreement, with a supplemental placing agreement entered into on 26 August 2011 (collectively the "CN Placing Agreement"), with a placing agent pursuant to which the Company agreed to issue through the placing agent to not less than six independent placees zero coupon convertible notes in an aggregate principal amount of HK$62,100,000 (the "CN") which can be converted into ordinary shares of HK$0.10 each of the Company at an initial conversion price of HK$0.15 per share (subject to anti-dilutive adjustments).

The CN are denominated in Hong Kong dollars, maturing on the second anniversary of the issue date of 2 September 2011 (the "Maturity Date"). The Company shall redeem all the CN on the Maturity Date at 130% of the principal amount outstanding. With the holder's agreement, the Company may at any time and from time to time purchase the outstanding CN at such price as may be agreed between the Company and the holders thereof. No interest is payable by the Company unless the Company defaults in payment of any amount due under the CN in which event default interest at the rate of 5% per annum is payable on the amount in default.

The holders of the CN shall have the right at any time during the conversion period commencing from the day after the issue date of the CN up to and including the date which is 7 days prior to the Maturity Date to convert the whole or part of the principal amount outstanding (in minimum amount of HK$150,000 or whole multiple thereof) under the CN at an initial conversion price of HK$0.15 per share (subject to anti-dilutive adjustments) into ordinary shares of the Company. The holders of the CN shall not exercise any conversion rights to such an extent that results or will result in (i) the holder(s) and person(s) acting in concert with it (within the meaning of the Code on Takeovers and Mergers and Share Repurchases (the "Takeovers Code")) holding or having more than 29% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the then issued ordinary share capital of the Company or otherwise being obliged to make a general offer for the shares of the Company in accordance with the Takeovers Code; or (ii) the Company in breach of any provision of the Rules Governing the Listing of Securities on the Stock Exchange, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Company held by the public.

The CN contain two components, the liability component and the conversion option. The conversion option gives the holders right at any time to convert the CN into ordinary shares of the Company. However, since the conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is accounted for as a derivative liability and it is measured at fair value with subsequent changes in fair value recognised in profit or loss.

The fair value of the liability component upon the issuance of the CN was calculated at the present value of the redeemable amount, at 130% of the principal amount. The effective interest rate of the liability component is 23.41%.

27. CONVERTIBLE NOTES – CONTINUED

The fair value of the conversion option was determined using binomial option pricing model, and the inputs into the model at the relevant dates were as follows:

	Issue date of 2.9.2011	31.12.2011	31.12.2012
Conversion price	HK$0.150	HK$0.150	HK$0.150
Share price	HK$0.119	HK$0.166	HK$0.183
Expected volatility	41.868%	41.868%	34.445%
Remaining life	2 years	1.64 years	0.64 years
Risk-free rate	0.2190%	0.3332%	0.0800%

During the year ended 31 December 2012, CN with an aggregate principal amount of HK$43,425,000 (2011: nil) were converted by the holders into 289,500,000 ordinary shares at a conversion price of HK$0.15 per ordinary share. The weighted average share price at the date of conversion for the CN during the year was HK$0.186.

The total fair value of the CN at 2 September 2011 is HK$62,100,000. At 31 December 2012, a gain on derivative component of CN of HK$378,000 (2011: loss of HK$10,106,000) was recognised in profit or loss.

The movement of the components of the CN during the current and prior years is set out below:

	Liability component HK$'000	**Conversion component** HK$'000	**Total** HK$'000
At issue date of 2 September 2011	54,542	7,558	62,100
Transaction costs	(2,044)	–	(2,044)
Loss on derivative components recognised in profit or loss	–	10,106	10,106
Interest charge	4,499	–	4,499
At 31 December 2011	56,997	17,664	74,661
Gain on derivative components recognised in profit or loss	–	(378)	(378)
Conversion during the year	(45,035)	(12,352)	(57,387)
Interest charge	9,031	–	9,031
At 31 December 2012	20,993	4,934	25,927

Analysed for reporting purpose as:

	2012 **HK$'000**	2011 HK$'000
Current liabilities	**25,927**	–
Non-current liabilities	**–**	74,661
	25,927	74,661

28. ASSETS RETIREMENT OBLIGATION

	HK$'000
At 1 January 2011	3,137
Adjustments	(1,407)
At 31 December 2011	1,730
Adjustments	1,124
At 31 December 2012	2,854

In accordance with the relevant rules and regulations in Argentina, the Group is obliged to accrue the cost for land reclamation and site closures for the Group's existing developed oil and gas fields. The provision for asset retirement obligation has been determined by the directors based on their best estimates in accordance with the relevant rules and regulations.

29. SHARE CAPITAL

	Nominal value per share	**Number of shares**	**Amount** HK$'000
Authorised:			
At 1 January 2011	0.01	100,000,000,000	1,000,000
Consolidation of shares (note a)		(90,000,000,000)	–
At 31 December 2011 and 31 December 2012	0.10	10,000,000,000	1,000,000
Issued and fully paid:			
At 1 January 2011	0.01	18,508,775,885	185,088
Issue of new shares (note b)	0.01	2,200,000,000	22,000
Consolidation of shares (note a)		(18,637,898,297)	–
Issue of new shares (note c)	0.10	80,000,000	8,000
At 31 December 2011	0.10	2,150,877,588	215,088
Issue of new shares (note d)	0.10	330,000,000	33,000
Issue of new shares (note e)	0.10	360,000,000	36,000
Conversion of convertible notes (note f)	0.10	289,500,000	28,950
At 31 December 2012	0.10	3,130,377,588	313,038

29. SHARE CAPITAL – CONTINUED

Notes:

(a) As announced by the Company on 16 May 2011, the Company proposed to effect a share consolidation and every ten issued and unissued shares of the Company of HK$0.01 each were consolidated into one consolidated share of HK$0.10 each. Details of the share consolidation are set out, among others, in the circular of the Company dated 7 June 2011. An ordinary resolution approving the share consolidation was passed at the special general meeting of the Company held on 22 June 2011 and the share consolidation became effective on 23 June 2011.

(b) During the year ended 31 December 2011 and prior to the share consolidation set out in (a) above, the following subscription arrangements took place:

(i) On 22 December 2010, the Company entered into a subscription agreement with Rich Concept Worldwide Limited ("Rich Concept"), a shareholder of the Company, to allot and issue 920,000,000 ordinary shares of HK$0.01 each (the "First Subscription Shares") at a subscription price of HK$0.0675 per share. The subscription agreement is conditional upon completion of the placing of 920,000,000 ordinary shares of HK$0.01 each of the Company made by the placing agent on behalf of Rich Concept. The placing of issued shares then held by Rich Concept was completed on 22 December 2010 with net proceeds amounting to HK$61,721,000 being remitted to the Company which shall be applied as part settlement as subscription money for the new shares to be issued to Rich Concept. On 3 January 2011, the First Subscription Shares were issued under the general mandate granted to the directors of the Company on 9 June 2010. The net proceeds of approximately HK$61.7 million shall be used as general working capital and future business development of the Group. At 31 December 2010 when the subscription was not yet completed, the proceeds received were recorded in capital reserve which were credited to share capital and share premium, as appropriate, upon completion of the subscription on 3 January 2011.

Wong Chi Wing, Joseph who wholly owned the beneficial interests in Rich Concept was a director and a shareholder of the Company when the above transaction took place. Wong Chi Wing, Joseph resigned as a director of the Company on 20 December 2011.

Further details of the above are set out in the Company's announcements dated 22 December 2010 and 3 January 2011.

The First Subscription Shares of HK$0.01 each were issued to Rich Concept pursuant to the subscription agreement.

(ii) On 9 May 2011, the Company entered into a subscription agreement with City Wise Investment Limited ("City Wise"), a substantial shareholder of the Company, to allot and issue 1,280,000,000 ordinary shares of HK$0.01 each (the "Second Subscription Shares") at a subscription price of HK$0.05 per share. The subscription agreement is conditional upon completion of the placing of 1,280,000,000 ordinary shares of HK$0.01 each of the Company made by the placing agent on behalf of City Wise. On 23 May 2011, following completion of the placing, the Second Subscription Shares were issued under the general mandate granted to the directors of the Company on 9 June 2010. The net proceeds of approximately HK$63.6 million shall be used as general working capital and to finance the Group's operations in Mendoza, Argentina.

Mr. Wu, a shareholder of the Company, wholly owned the beneficial interests in City Wise when the above transaction took place.

Further details of the above are set out in the Company's announcements dated 9 May 2011 and 23 May 2011.

The Second Subscription Shares of HK$0.01 each were issued to City Wise pursuant to the subscription agreement.

(c) During the year ended 31 December 2011 and after the share consolidation set out in (a) above becoming effective, the following subscription arrangement took place:

On 14 October 2011, the Company entered into a subscription agreement with City Wise to allot and issue 80,000,000 ordinary shares of HK$0.10 each (the "Third Subscription Shares") at a subscription price of HK$0.182 per share. The subscription agreement is conditional upon completion of the placing of 80,000,000 ordinary shares of HK$0.10 each of the Company made by City Wise to an individual who is an independent third party. On 28 October 2011, following completion of the placing, the Third Subscription Shares were issued under the refreshed general mandate granted to the directors of the Company on 29 September 2011. The net proceeds of approximately HK$13.6 million shall be used as to approximately HK$11.4 million for financing the Group's operations in Mendoza, Argentina and as to the balance of approximately HK$2.2 million as general working capital.

Mr. Wu, a shareholder of the Company, is a controlling shareholder of City Wise when the above transaction took place.

Further details of the above are set out in the Company's announcements dated 14 October 2011 and 28 October 2011.

The Third Subscription Shares of HK$0.10 each were issued to City Wise pursuant to the subscription agreement.

(d) On 25 April 2012, the Company entered into a subscription agreement with City Wise to allot and issue 330,000,000 ordinary shares of HK$0.10 each (the "Fourth Subscription Shares") at a subscription price of HK$0.15 per share. The subscription agreement is conditional upon completion of the placing of 330,000,000 ordinary shares of HK$0.10 each of the Company made by the placing agent on behalf of City Wise. On 9 May 2012, following completion of the placing, the Fourth Subscription Shares were issued under the general mandate granted to the directors of the Company on 29 September 2011. The net proceeds of approximately HK$47 million shall be used as general working capital.

Mr. Wu, a shareholder of the Company, is a controlling shareholder of City Wise when the above transaction took place.

Further details of the above are set out in the Company's announcements dated 25 April 2012 and 9 May 2012.

The Fourth Subscription Shares of HK$0.10 each were issued to City Wise pursuant to the subscription agreement.

29. SHARE CAPITAL – CONTINUED

Notes: – continued

(e) On 28 June 2012, the Company entered into a subscription agreement with City Wise to allot and issue 250,000,000 ordinary shares of HK$0.10 each (the "Fifth Subscription Shares") at a subscription price of HK$0.155 per share. The subscription agreement is conditional upon completion of the placing of 250,000,000 ordinary shares of HK$0.10 each of the Company made by the placing agent on behalf of City Wise. On 11 July 2012, following completion of the placing, the Fifth Subscription Shares were issued under the general mandate granted to the directors of the Company on 8 June 2012.

Also on 28 June 2012, the Company entered into a new shares placing agreement with two placing agents, pursuant to which the placing agents agree to procure not less than six placees to subscribe for a maximum of 110,000,000 new shares of HK$0.10 each (the "New Placing Shares") at a placing price of HK$0.155 per share. The new shares placing was completed on 17 July 2012 and the New Placing Shares were issued to not less than six placees, who are independent third parties not connected with the Group, under the general mandate granted to the directors of the Company on 8 June 2012.

The net proceeds of approximately HK$53.6 million from the issue of the Fifth Subscription Shares and the issue of the New Placing Shares shall be used as general working capital and professional and other upfront fees incurred in evaluating the Group's potential investment projects in North America.

Mr. Wu, a shareholder of the Company, had beneficial interests in City Wise when the above transactions took place.

Further details of the above are set out in the Company's announcements dated 28 June 2012, 11 July 2012, and 17 July 2012.

The Fifth Subscription Shares were issued to City Wise pursuant to the subscription agreement.

The New Placing Shares were issued to the placees pursuant to the new share placing agreement.

(f) During the year ended 31 December 2012, 289,500,000 shares of HK$0.10 each were issued upon conversion of CN with an aggregate principal amount of HK$43,425,000.

All shares issued by the Company during both years rank pari passu with the then existing ordinary shares in all respects.

30. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted for a period of 10 years commencing 6 November 2006 pursuant to an ordinary resolution passed at the special general meeting of the shareholders held on 6 November 2006 for the purpose of providing incentives or rewards to selected employees and directors for their contribution to the Group.

Under the Scheme, the Company may grant options to selected employees and directors of the Company and its subsidiaries to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible suppliers, customers, advisors and consultants to the Company and its subsidiaries at the discretion of the board of directors of the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include substantial shareholders, independent non-executive directors, or any of their respective associates) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be also approved by the Company's shareholders.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of: (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options which must be a business day; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

As at 31 December 2012, options to subscribe for an aggregate of 152,379,999 shares (2011: 152,379,999 shares) of the Company granted to the directors, certain employees and suppliers pursuant to the Scheme remained outstanding.

30. SHARE OPTIONS – CONTINUED

Details of the movements in the number of share options during both years under the Scheme are as follows:

Option type	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK$	Outstanding at 1.1.2011	Adjustments*	Lapsed/ cancelled during the year	Granted during the year	Outstanding at 31.12.2011 and 31.12.2012
Directors:								
M	19 March 2010	19 March 2010 – 9 February 2013	1.610*	5,900,000	(5,310,000)	(500,000)	–	90,000
N	19 March 2010	10 November 2010 – 9 February 2013	1.610*	5,900,000	(5,310,000)	(500,000)	–	90,000
O	19 March 2010	10 August 2011 – 9 February 2013	1.610*	5,900,000	(5,310,000)	(500,000)	–	90,000
				17,700,000	(15,930,000)	(1,500,000)	–	270,000
Employees:								
G	15 August 2007	15 August 2008 – 15 August 2011	6.420*	1,000,000	(900,000)	(100,000)	–	–
H	15 August 2007	15 August 2009 – 15 August 2011	6.420*	1,000,000	(900,000)	(100,000)	–	–
I	15 August 2007	15 August 2010 – 15 August 2011	6.420*	1,000,000	(900,000)	(100,000)	–	–
J	10 February 2010	10 February 2010 – 9 February 2013	1.564*	42,499,995	(38,249,996)	(213,333)	–	4,036,666
K	10 February 2010	10 November 2010 – 9 February 2013	1.564*	42,499,995	(38,249,996)	(213,333)	–	4,036,666
L	10 February 2010	10 August 2011 – 9 February 2013	1.564*	42,500,010	(38,250,009)	(213,334)	–	4,036,667
P (Note)	10 November 2010	1 January 2011 – 31 December 2012	0.816*	475,000,000	(427,500,000)	(47,500,000)	–	–
Q (Note)	10 November 2010	1 January 2012 – 31 December 2012	0.816*	475,000,000	(427,500,000)	(47,500,000)	–	–
				1,080,500,000	(972,450,001)	(95,940,000)	–	12,109,999
Suppliers:								
R	11 October 2011	11 October 2011 – 10 October 2013	0.141	–	–	–	140,000,000	140,000,000
				1,098,200,000	(988,380,001)	(97,440,000)	140,000,000	152,379,999

The vesting period ends on the date when the exercisable period of the share options begin.

No share options were exercised during both years.

No options were granted during the year ended 31 December 2012.

30. SHARE OPTIONS – CONTINUED

The Company used the Binomial model (the "Model") with the consideration of vesting period and possible exercise pattern to value the share options granted. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Share options were granted on 15 August 2007, 10 February 2010, 19 March 2010, 10 November 2010 and 11 October 2011. The estimated fair value of the options granted on these dates, as adjusted for the effect of the share consolidation in June 2011, was as follows:

Option type	Grant date	Fair value HK$
G	15 August 2007	2.123*
H	15 August 2007	2.346*
I	15 August 2007	2.522*
J	10 February 2010	0.372*
K	10 February 2010	0.417*
L	10 February 2010	0.459*
M	19 March 2010	0.384*
N	19 March 2010	0.425*
O	19 March 2010	0.469*
P (Note)	10 November 2010	0.209*
Q (Note)	10 November 2010	0.250*
R	11 October 2011	0.0469

The inputs into the Model in respect of the share options granted during the year ended 31 December 2011 were as follows:

	Option type R
Share price on grant date (HK$)	0.141
Exercise price (HK$)	0.141
Expected volatility	62.27%
Expected life (years)	2.00
Risk-free rate	0.244%

The Group recognised an expense in profit or loss in the consolidated statement of comprehensive income of HK$7,480,000 (2012: nil) for the year ended 31 December 2011 in relation to share options granted by the Company.

Note: On 15 February 2011, the directors of the Company, after obtaining written consent from all grantees, cancelled option types P and Q as the market price of the Company's shares has been substantially below the respective exercise prices and the options granted did not serve the incentive purpose as originally planned.

* This reflect the adjusted share price on grant date, exercise prices and number of share options which have been granted and are outstanding after the completion of the consolidation of shares during the year ended 31 December 2011.

31. JOINT VENTURE

Jointly controlled operation

Chañares entered into a joint venture agreement ("JV Agreement") with Maxipetrol – Petroleros de Occidente S.A. (formerly known as Oxipetrol – Petroleros de Occidente S.A., ("Maxipetrol")) on 14 November 2007 in connection with the development of incremental hydrocarbons production in the "Puesto Pozo Cercado" area and "Chañares Herrados" area ("Areas"), through the investments to be made by Maxipetrol. Under the JV Agreement, it was established that the hydrocarbons obtained from the wells drilled within the scope of the JV Agreement, as well as any other benefit obtained from the exploration and production of the works performed thereunder, shall be distributed in the following proportion: 28% for Chañares and 72% for Maxipetrol.

Have Result entered into an agreement for the Assignment of Rights, Investment and Technical Cooperation with Maxipetrol dated 24 November 2007, as amended and/or supplemented by (i) a deed of undertaking executed by Maxipetrol on 12 December 2007; (ii) a supplementary deed of undertaking executed by Maxipetrol on 28 December 2007; and (iii) a document entitled "Amendment to Contract of Assignment of Rights, Investment and Technical Cooperation" executed by and between Maxipetrol and Have Result, dated 19 December 2008 (the "Assignment Agreement"). Under the Assignment Agreement, Maxipetrol assigned in favour of Have Result 51% of its rights on the future production as a consequence of new drillings and the operation of new wells in the Areas. The profit derived from the incremental hydrocarbon production in the Areas will first cover the operating costs and thereafter is shared by the proportion of 51% to Have Result, 21% to Maxipetrol and 28% to Chañares. As from the date the wells drilled under the terms of the Assignment Agreement go into production, Maxipetrol shall also reimburse Have Result for 21% of the aggregate investments made by Have Result in the Areas.

On 6 August 2009, a temporary union of enterprise was organised in which Have Result has a 70.83% interest and Maxipetrol has a 29.17% interest for carrying out the operation of petroleum production in the Areas with Chañares.

On 2 December 2010, Have Result sent a letter to Maxipetrol stating and confirming the termination of the JV Agreement ("Termination"). As advised by the Argentina legal advisers of the Company, notwithstanding the Termination, Have Result remains entitled to a 51% right in the production from the five existing wells drilled by Have Result in the Areas (the "HR Existing Wells"), provided that Have Result continues to pay the relevant operating costs as required by the production allocated to it.

Also on 2 December 2010, Southstart and Chañares entered into the New JV Agreement. Pursuant to the New JV Agreement, EP Energy S.A. ("EP Energy"), a wholly-owned subsidiary of Southstart which is organised and existing under the laws of Argentina, and Chañares formed a new joint venture company which is owned as to 72% by the Group (through EP Energy) and as to 28% by Chañares. EP Energy is entitled to share a proportion of 72% of hydrocarbon production from the wells drilled by EP Energy in the current and future years until the end of the Concessions period. The Group agreed to pay US$6,000,000 (equivalent to approximately HK$46,800,000) to Chañares in consideration for the oil exploration and production right in the Areas during the current term of the Concessions. This amount was paid during the year ended 31 December 2011. The business of the new joint venture company is the exploration, exploitation and development of hydrocarbons in the Areas under the terms of the New JV Agreement.

Pursuant to the New JV Agreement, the total consideration for the oil exploration and production right is subject to adjustment with reference to whether or not Chañares can obtain the extension of the term of Concessions (the "Extension") by 31 December 2011. On 14 July 2011, the Company was informed by Chañares that the Executive of the Province of Mendoza has issued a Decree pursuant to which Chañares obtained an extension of 10 years from the date of expiry of the original term of the Concessions until 2027. The Group shall pay an aggregate amount of US$4,000,000 (equivalent to approximately HK$31,200,000) to Chañares in consideration for the oil exploration and production right in the Areas during the extended term of the Concessions. A sum of US$1,404,000 (equivalent to approximately HK$10,952,000) was paid in 2011 and the balance of US$2,596,000 (equivalent to approximately HK$20,248,000), which was included in trade and other payables at 31 December 2011 (see note 25(c)), was paid during the year ended 31 December 2012.

31. JOINT VENTURE – CONTINUED

Jointly controlled operation – continued

As advised by the Argentina legal advisers of the Company, the New JV Agreement constitutes valid and binding obligations of Chañares. Based on the aforesaid legal opinion, the directors of the Company consider that (i) there will not be any material adverse effects on the ownership of the rights of Have Result regarding the production of the HR Existing Wells notwithstanding the Termination; and (ii) the entering into of the New JV Agreement and the formation of the new joint venture company enables the Group to continue its expansion plan in the Areas.

According to the New JV Agreement, EP Energy is obliged to drill a minimum of five production wells per year during the five consecutive years from 2012, and two production wells per year for the following years until the seventh year before the expiration of the extended term of the Concessions. Failure to meet the minimum drilling requirements may render the New JV Agreement to be terminated and the Group will be forfeited its rights to continue drilling but it will not be forfeited any right in respect of the wells already drilled.

On 5 June 2012, EP Energy, Have Result and Chañares entered into an operation agreement ("the Operation Agreement").

Pursuant to the Operation Agreement, Chañares agreed to release EP Energy from the above commitment. EP Energy, however, retains the right to drill and invest in the Areas during the life of the concessions awarded with respect to the Areas and any extension thereof. If five or more new wells are drilled by EP Energy in a year, EP Energy shall be entitled to 72% and Chañares shall be entitled to 28% of the profits of the new well; and if less than five new wells are drilled by EP Energy in a year, EP Energy shall be entitled to 65% and Chañares shall be entitled to 35% of the profits of the new well. The Operation Agreement confirms that the profit of the existing five wells drilled by EP Energy shall continue to be distributed in accordance with the New JV Agreement (i.e., 72% to EP Energy and 28% to Chañares). On the other hand, Chañares becomes entitled to be associated with third parties for carrying out any work or drilling any wells in the Areas.

The Operation Agreement reconfirms that Have Result has the right to receive 51% of the hydrocarbon production obtained from the HR Existing Wells until the termination of the concessions held in respect of the Areas and any extension thereof. Have Result agreed that part of the proceeds from previous production of the HR Existing Wells, as well as the future production from the HR Existing Wells up to 31 December 2013, shall be reinvested in the Areas, including workover of the HR Existing Wells.

The aggregate amount of assets and liabilities, income and expenses recognised in the consolidated financial statements in relation to the Group's interest in the jointly controlled operation is as follows:

	2012 **HK$'000**	2011 HK$'000
Assets	**538,787**	654,219
Liabilities	**50,908**	147,530
Income	**103,146**	45,654
Expenses	**208,693**	120,256

32. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2012, the Group had the following major non-cash transactions:

(a) As detailed in note 25(d), consideration of HK$16,115,000 for the acquisition of held-for-trading investments in 2011 as securities to a loan was not yet settled as at 31 December 2012.

During the year ended 31 December 2011, the Group had the following major non-cash transactions:

(a) As detailed in note 25(c), consideration of HK$20,248,000 for the acquisition of oil concession rights was not yet settled as at 31 December 2011. The amount was paid in 2012.

(b) As detailed in note 25(d), consideration of HK$16,115,000 for the acquisition of held-for-trading investments as securities to a loan was not yet settled as at 31 December 2011.

33. PLEDGE OF ASSETS

At 31 December 2012, the following assets were pledged to secure the Group's bank borrowings and banking facilities:

(a) The entire stock capital of EP Energy whose principal asset is the 72% equity interest in the joint venture company formed under the New JV Agreement. Details of the Group's interest in the jointly controlled operation are set out in note 31.

(b) The entire issued share capital of Have Result. Details of the Group's interest in the jointly controlled operation are set out in note 31.

(c) The entire issued share capital of two wholly-owned subsidiaries of the Company which together hold the entire stock capital of EP Energy.

34. OPERATING LEASE COMMITMENTS

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	**1,892**	1,765
In the second to fifth year, inclusive	**1,367**	154
	3,259	1,919

The Group leases certain of its office properties and buildings under operating lease arrangements. Leases for properties are negotiated for terms of three years.

35. RETIREMENT BENEFITS SCHEMES

The Group contributes to MPF Schemes for all qualifying employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Contributions to the MPF Schemes by the Group and the employees are calculated as a percentage of employee's relevant income. The retirement benefit scheme costs charged to profit or loss represent contributions payable by the Group to the funds. The assets of the MPF Schemes are held separately from those of the Group in independently administered funds.

The Group also participates in the employees' pension schemes of the respective municipal governments in various places (including Argentina) where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly basic salary and the relevant municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group.

The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above contributions payments.

36. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following significant transaction with related parties:

Name of related party	Nature of transaction	2012 HK$'000	2011 HK$'000
City Wise (note)	Interest paid	–	416

Note: City Wise is a substantial shareholder of the Company.

(b) During the year ended 31 December 2012 and 2011, the Group had drawn the following borrowings which were guaranteed/secured by related parties:

(i) Loans of HK$10,000,000 (2011: HK$28,000,000) were guaranteed by Rich Concept, a shareholder of the Company. The loans were also guaranteed by issued shares of the Company registered in the name of Rich Concept. The loans were settled during the year and the guarantee was released.

(ii) A loan of HK$5,000,000 (2011: HK$20,000,000) was guaranteed by Mr. Wu, Chu Kwok Chi, Robert and Hong Kin Choy. It was settled during the year and the guarantee was released.

(iii) A loan of HK$25,000,000 (2011: HK$10,000,000) drawn in 2011 was guaranteed by Wong Chi Wing, Joseph. It was settled in 2011 and the guarantee was released.

(iv) A loan of HK$2,000,000 (2012: nil) drawn in 2011 was guaranteed by Chu Kwok Chi, Robert. It was settled in 2011 and the guarantee was released.

(c) As at 31 December 2012 and 2011, the Group's borrowings are guaranteed/secured by the following related parties:

(i) A bank loan of US$38,000,000 (approximately HK$296,400,000) (2011: US$40,000,000; approximately HK$312,000,000) is guaranteed by Ample Talent, which is indirectly owned as to 72% by Mr. Wu (see note 26).

(ii) A loan of HK$7,728,000 (2011: HK$7,728,000) is guaranteed by Mr. Wu.

(iii) A loan of HK$25,000,000 (2011: HK$10,000,000) is guaranteed by Rich Concept, a shareholder of the Company. The loan is also secured by issued shares of the Company registered in the name of Rich Concept.

(iv) At 31 December 2011, a loan of HK$20,000,000 (2012: nil) was guaranteed by Chu Kwok Chi, Robert and Hong Kin Choy.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2012 HK$'000	2011 HK$'000
Short-term employee benefits	5,211	8,153
Post-employment benefits	41	50
	5,252	8,203

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

37. SIGNIFICANT EVENTS

On 26 September 2012, Advanced Grade Investments Limited ("Advanced Grade"), a wholly-owned subsidiary of the Company, (as the purchaser) and the Company (as Advanced Grade's guarantor) entered into an acquisition agreement with an independent third party vendor and its guarantor for the acquisition of the entire issued share capital of a target company (the "Target") and the shareholder's loan owed by the Target to the vendor for a total consideration of US$35.9 million (approximately HK$280.0 million) (the "Acquisition Agreement"). The Target, through a wholly-owned subsidiary, entered into an agreement with another entity ("Woodland") (the "Woodland Agreement") for the acquisition of 90% interest in oil, gas and mineral properties and other assets and related liabilities to be acquired by Woodland under an agreement dated 1 April 2011 entered into between Woodland and another entity ("Tempo") (the "Tempo Agreement"). The consideration payable by the Group is to be satisfied at completion as to (i) US$20.7 million (approximately HK$161.5 million) by a loan note in the principal amount of US$20.7 million which bears interest at 7% per annum, accrued on a daily basis, with the principal sum, together with the interest accrued, to be repaid in full on the date following on the 5th anniversary of the date of issue of the loan note; and (ii) US$15.2 million (approximately HK$118.5 million) by the issue of zero coupon convertible bonds in the principal amount of US$15.2 million which can be converted into ordinary shares of HK$0.10 each of the Company at an initial conversion price of HK$0.19 per share (subject to anti-dilutive adjustments), maturing on the day before the 3rd anniversary of the date of issue of the convertible bonds and with conversion period commencing on the 7th day after the issue of the convertible bonds and up to and including the date which is 7 days prior to the maturity date of the convertible bonds.

In addition, Advanced Grade will provide at or before completion of the Acquisition Agreement ("Completion) a loan of up to a maximum amount of US$29.1 million (approximately HK$227.0 million) to the Target to enable simultaneous completion of the Woodland Agreement and the Tempo Agreement on Completion.

The Company has been conducting due diligence on the Target, its sole-subsidiary and the assets to be acquired by Woodland under the Tempo Agreement, part of which are to be acquired by the Group under the Woodland Agreement. It came to the notice of the Company that the Tempo Agreement has been terminated on 1 January 2013 in accordance with its terms. By reason of this termination, one of the conditions precedent to the Acquisition Agreement will not and cannot be fulfilled. Accordingly, the Tempo Agreement, the Woodland Agreement and the Acquisition Agreement will not and cannot be completed simultaneously. In the circumstances, the Company gave notice to the vendor on 5 February 2013 to terminate the Acquisition Agreement with immediate effect pursuant to the Acquisition Agreement.

Expenses incurred for the above proposed acquisition during the year ended 31 December 2012 amounted to HK$10,297,000, which was recognised in profit or loss as "other expenses" (see note 9). At 31 December 2012, an amount of HK$2,019,000 remained outstanding which was included in "other payables and accruals" (see note 25(e)).

Further details of the above are set out in the Company's announcements dated 10 October 2012, 30 November 2012, 2 January 2013, 9 January 2013 and 5 February 2013.

38. FINANCIAL INSTRUMENTS

Financial risk management objectives

The financial instruments are fundamental to the Group's daily operations. The Group's major financial instruments include trade and other receivables, held-for-trading investments, bank balances and cash, trade and other payables, convertible notes and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with the financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

Categories of financial instruments

	2012 **HK$'000**	2011 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**220,723**	43,157
Held-for-trading investments	**37**	52
Available-for-sale investments	**–**	67,600
	220,760	110,809
Financial liabilities		
Amortised cost	**437,032**	567,792
Derivative financial instruments	**4,934**	17,664

Interest rate risk

The cash flow interest rate risk relates primarily to the Group's borrowings and short-term deposits placed in banks that are interest-bearing at market interest rates. The fair value interest rate risk relates primarily to the fixed-rate borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's sensitivity to interest rate risk has been determined based on the exposure to interest rates for bank balances and variable-rate borrowings at the end of the reporting period and the reasonably possible change taking place at the beginning of each year and held constant throughout the year. If interest rates on bank balances and borrowings had been 50 basis points higher/lower and all other variables were held constant, the potential effect on loss for the year is as follows:

	2012 **HK$'000**	2011 HK$'000
Assets	**(13)**	(148)
Liabilities	**1,482**	1,660
Increase in loss for the year	**1,469**	1,512

The management considers that the fair value interest rate risk is insignificant as the Group had no fixed-rate borrowings due more than one year.

38. FINANCIAL INSTRUMENTS – CONTINUED

Foreign currency risk management

Several subsidiaries of the Company have certain assets and liabilities (details are disclosed in respective notes) denominated in foreign currencies which expose the Group to foreign currency risk. The Group currently does not have a formal foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the group entities' foreign currency denominated monetary assets and monetary liabilities, at the reporting date are as follows:

	Liabilities		Assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**42,408**	40,728	**121**	22,975
ARS	**11,627**	19,673	**2,351**	6,382

Foreign currency sensitivity

The following table details the Group's sensitivity to a 1% and 10% increase and decrease in US$ against the relevant foreign currencies. Sensitivity rate of 1% was used for HK$ while 10% was used for ARS when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the year end for a 1%/10% change in foreign currency rates. The sensitivity analysis represents the trade receivables, trade payables, borrowings and bank balances where the denomination are in HK$ or ARS, the major foreign currency risk. A negative number indicates increase in loss for the year where US$ strengthens against HK$ or ARS. For a 1%/10% weakening of US$ against HK$ or ARS, there would be an equal and opposite impact on the loss for the year below:

	Impact of HK$		Impact of ARS	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Increase in loss for the year	**(423)**	(178)	**(928)**	(1,329)

In management's opinion, the sensitivity analysis is unpresentative of the inherent foreign exchange risk at the year end and the sensitivity analysis does not reflect the exposure during the year.

38. FINANCIAL INSTRUMENTS – CONTINUED

Other price risk

The Group is exposed to equity price risk from investment in listed equity securities, available-for-sale investments and conversion option of convertible notes. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 20% higher/lower, loss for the year ended 31 December 2012 would decrease/increase by HK$7,000 (2011:HK$13,530,000) as a result of the change in fair value of held-for-trading investments (2011: held-for-trading investments and available-for-sale investments).

If the input of share price to the valuation model of the derivative components of the convertible notes had been 5% higher/lower while all other variables were held constant, the loss for the year ended 31 December 2012 would increase/decrease by HK$247,000 (2011: HK$883,000).

Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices of aluminium and copper as the Group entered into aluminium and copper purchase and sale contracts with its suppliers and customers. The Group manages these commodity price risks through entering into aluminium and copper purchase and sales contracts within a short period of time. Accordingly, the Group minimises its exposure to such risk and is subject to short term price fluctuations in the prevailing market commodity prices in the intervening periods between entering into the aluminium and copper purchase and sales contracts. The Group does not have aluminium and copper contracts which remained at open position as at 31December 2012.

38. FINANCIAL INSTRUMENTS – CONTINUED

Credit risk

As at 31 December 2012, 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 statement of financial position.

– the amount of contingent liabilities in relation of financial guarantees issued by the Group as disclosed in note 40.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group's concentration of credit risk for trade receivables by geographical locations is mainly in Argentina (2011: Argentina), which accounted for 100% (2011: 100%) of the total trade receivables as at 31 December 2012.

The Group's concentration of credit risk for receivables arising from metals sales contracts by geographical location is mainly in the PRC as at 31 December 2012.

With respect to credit risk arising from other receivables and margin deposits to financial institutions, the Group's exposure to credit risk from default of counterparties are limited as the counterparties have good credit standing and the Group does not expect any significant loss for uncollected advances from these entities.

The Group had concentration of credit risk. The five largest customers represented approximately 100% (2011: 82%) of the revenue of the Group for the year ended 31 December 2012. The Group had concentration of credit risk as 100% (2011: nil) of the total trade receivables was due from the Group's five largest customers as at 31 December 2012. Trade receivables attributable to the Group's largest debtor represented approximately 100% (2011: 100%) of the total receivables as at 31 December 2012. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In determining whether allowance for bad and doubtful debts is required, the Group has taken into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the directors discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade and other receivables that is unlikely to be collected. In this regard, the management considers that the Group's credit risk is significantly reduced.

38. FINANCIAL INSTRUMENTS – CONTINUED

Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. In managing liquidity risk, the Group monitors and maintains sufficient funds to meet all its potential liabilities as they fall due, including shareholder distributions. It is applicable to normal market conditions as well as negative projections against expected outcomes, so as to avoid any risk of incurring contractual penalties or damaging the Group's reputation.

Liquidity forecasts are produced on a monthly basis, to ensure that utilisation of current facilities is optimised; on a quarterly basis to ensure that covenant compliance targets and medium-term liquidity is maintained; and on a long-term projection basis, for the purpose of identifying long-term strategic funding requirements. The board of directors also continuously assesses the balance of capital and debt funding of the Group.

The board of directors continuously manages liquidity risk on a regular basis and will increase the frequencies of such assessment should need arise. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves of cash and banking facilities and by continuously monitoring the utilisation of bank borrowings and ensuring compliance with loan covenants.

The Group's holdings of cash and short-term deposits, together with net cash flows from operations, are expected to be sufficient to cover the operating cost of the Group in the next financial year. The management considers that the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments settled on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

38. FINANCIAL INSTRUMENTS – CONTINUED

Liquidity risk – continued

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1 to 6 months HK$'000	7 months to 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
2012								
Non-derivative financial liabilities								
Trade payables	N/A	34,447	–	–	–	–	34,447	34,447
Other payables	N/A	42,784	–	–	–	–	42,784	42,784
Borrowings								
– variable-rate	4.53%	–	–	36,826	253,025	57,073	346,924	296,400
– fixed-rate	25.29%	–	45,512	–	–	–	45,512	42,408
Convertible notes	23.41%	–	–	24,278	–	–	24,278	20,993
		77,231	45,512	61,104	253,025	57,073	493,945	437,032
Derivative settled								
Convertible notes	N/A	4,934	–	–	–	–	4,934	4,934

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1 to 6 months HK$'000	7 months to 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
2011								
Non-derivative financial liabilities								
Trade payables	N/A	68,004	–	–	–	–	68,004	68,004
Other payables	N/A	90,063	–	–	–	–	90,063	90,063
Borrowings								
– variable-rate	4.64%	–	–	31,239	243,170	136,362	410,771	312,000
– fixed-rate	24%	31,125	11,260	–	–	–	42,385	40,728
Convertible notes	23.41%	–	–	–	62,100	–	62,100	56,997
		189,192	11,260	31,239	305,270	136,362	673,323	567,792
Derivative settled								
Convertible notes	N/A	17,664	–	–	–	–	17,664	17,664

38. FINANCIAL INSTRUMENTS – CONTINUED

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices.

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, fair value determined based on the discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

38. FINANCIAL INSTRUMENTS – CONTINUED

Fair value of financial instruments – continued

Fair value measurements recognised in the consolidated statement of financial position – continued

	31.12.2012			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Held-for-trading				
– listed equity securities	37	–	–	37
Financial liabilities				
conversion option of convertible notes	–	4,934	–	4,934

	31.12.2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Held-for-trading				
– listed equity securities	52	–	–	52
Available-for-sale				
– equity securities	–	–	67,600	67,600
	52	–	67,600	67,652
Financial liabilities				
conversion option of convertible notes	–	17,664	–	17,664

There were no transfers between Level 1, 2 and 3 in the current and prior years.

39. CAPITAL RISK MANAGEMENT

The Group's over-riding objectives when managing capital are to safeguard the business as a going concern, to maximise returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to provide a high degree of financial flexibility at the lowest cost of capital.

The capital structure of the Group consists of debt, which includes borrowings and equity attributable to owners of the Company, comprising issued capital, reserves and retained profits. The Group does not have a target debt/equity ratio, but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise.

The Company's board of directors reviews the capital structure on a continuous basis. As part of this review, the board of directors considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from prior years.

40. CONTINGENT LIABILITIES

As at 31 December 2012 and 2011, the Company gave an indemnity to two non-controlling shareholders of Rakarta, owning the remaining 28% equity interest in Rakata, indemnifying them against any loss they sustain as a result of any action or claim against Rakata pursuant to the Ample Talent Shares Mortgage provided that the total amount payable will not exceed for an aggregate amount of up to US$13,000,000 (approximately HK$101,140,000). In respect of the arrangement, the Company paid an arrangement fee of US$300,000 (approximately HK$2,340,000) in 2011 to the two non-controlling shareholders of Rakata.

41. EVENTS AFTER THE REPORTING PERIOD

The following events took place subsequent to 31 December 2012:

(a) On 21 January 2013, the Company entered into a placing agreement with a placing agent, pursuant to which the placing agent agreed to place 125,000,000 new shares of HK$0.10 each with unlisted warrants attached to not less than six placees who are independent third parties at a price of HK$0.18 per placing share. The unlisted warrants, on the basis of 5 warrants for each placing share issued, at no initial issue price, entitle the holder of each warrant to subscribe for one new share, at an exercise price of HK$0.20 (subject to anti-dilutive adjustments) at any time for a period of three years from the date of issue of such warrant. Upon completion of the placing, the total number of placing shares and 625,000,000 warrant shares, if exercised in full, will be equivalent to approximately 23.96% of the issued share capital of the Company at the date of the placement agreement and also equivalent to approximately 19.33% of the issued share capital as enlarged by the issue of the placing shares and the warrant shares.

The net proceeds of the placing, after deducting the placing commission and other related expenses, will be approximately HK$21.60 million. The net proceeds from the full exercise of all of the subscription rights attaching to the warrants will be approximately HK$123 million. The Company intends to apply these net proceeds as to HK$10 million for the repayment of debts, HK$6.6 million for the professional fees incurred in the merger and acquisition projects and the remainder for other items of general working capital.

On 1 March 2013, 125,000,000 new shares of HK$0.10 each with unlisted warrants attached were issued to the placees under the special mandate granted to the directors of the Company on 22 February 2013.

Further details of the above are set out in the Company's announcements dated 21 January 2013, 22 February 2013 and 1 March 2013, and the Company's circular dated 4 February 2013.

41. EVENT AFTER THE REPORTING PERIOD – CONTINUED

The following events took place subsequent to 31 December 2012: – continued

(b) On 24 February 2013, the Company entered into a subscription agreement with a subscriber for the issue of convertible notes in the principal amount of HK$100,000,000 which can be converted into ordinary shares of HK$0.10 each of the Company at an initial conversion price of HK$0.19 per share (subject to anti-dilutive adjustments). The maturity date of the convertible notes is two years from the date of issue. The conversion period commences from the date of issue of the convertible notes up to and including the date which is seven days prior to the maturity date of such convertible notes. Upon exercise of the conversion rights under the convertible notes in full at the initial conversion price, a total of 526,315,789 conversion shares will be issued to the subscriber, which will be equivalent to approximately 16.81% of the issued share capital of the Company at the date of the subscription agreement and also equivalent to approximately 14.39% of the issued share capital as enlarged by the issue of the conversion shares.

The net proceeds from the issue of the convertible notes, after deducting all related expenses (including a finder's fee of HK$3.5 million to an independent corporation), of approximately HK$95.5 million will be applied as to HK$80 million for the repayment of debts and the remaining balance of HK$15.5 million for general working capital.

An ordinary resolution was passed at the special general meeting of the Company held on 27 March 2013 approving the transactions contemplated under the subscription agreement, including the issue of the convertible notes. At the date of issuance of these consolidated financial statements, the transactions contemplated under the subscription agreement are not yet completed.

Further details of the above are set out in the Company's announcement dated 26 February 2013 and 27 March 2013 and circular dated 11 March 2013.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies, at 31 December 2012 and 2011 are as follows:

Name of subsidiaries	Place of incorporation/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Attributable proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
EPI Metals Limited	Hong Kong	HK$1	–	100% (2011: 100%)	Metals transactions and trading of petroleum related products
Have Result Investments Limited	British Virgin Islands/ Argentina	US$10,000	–	100% (2011: 100%)	Petroleum exploration and production
EP Energy S.A.	Argentina	ARS273,430	–	100% (2011: 100%)	Petroleum exploration and production

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

43. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	2012 HK$'000	2011 HK$'000
ASSETS		
Property, plant and equipment	**236**	379
Interests in subsidiaries – unlisted	**8**	8
Other receivables, prepayment and deposits	**5,611**	5,862
Amounts due from subsidiaries	**1,138,759**	4,406,248
Bank balances and cash	**143**	3,006
	1,144,757	4,415,503
LIABILITIES		
Other payables	**30,691**	25,812
Amounts due to subsidiaries	**90,986**	90,452
Borrowings	**338,808**	332,728
Convertible notes	**25,927**	74,661
	486,412	523,653
NET ASSETS	**658,345**	3,891,850
CAPITAL AND RESERVES		
Share capital	**313,038**	215,088
Reserves (Note)	**345,307**	3,676,762
TOTAL EQUITY	**658,345**	3,891,850

Note:

Movements of the Company's reserves during the current and the prior years are as follows:

	HK$'000
At 1 January 2011	3,818,003
Total comprehensive expense for the year	(195,884)
Issue of new shares	48,939
Recognition of share-based payment expense	7,480
Transaction costs attributable to issue of new shares	(1,776)
At 31 December 2011	3,676,762
Total comprehensive expense for the year	(3,391,664)
Issue of new shares	36,300
Conversion of convertible notes	28,437
Transaction costs attributable to issue of new shares	(4,528)
At 31 December 2012	345,307

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**86,682**	619,800	937,258	945,929	1,285,960
(Loss) profit before taxation	**(3,341,689)**	(225,679)	(289,518)	(21,616)	48,615
Taxation (charge) credit	**(10,351)**	7,942	–	291	(8,581)
(Loss) profit for the year from continuing operations	**(3,352,040)**	(217,737)	(289,518)	(21,325)	40,034
Profit (loss) for the year from discontinued operations	**–**	–	890	41,639	(47,867)
Other comprehensive (expenses) income					
Reclassification adjustment for the cumulative gain of available-for sale investments included in profit or loss upon disposal	**(57,176)**	–	–	–	–
Reversal of deferred tax liabilities upon disposal of available-for-sale investments	**5,718**	–	–	–	–
(Loss) profit for the year	**(3,403,498)**	(217,737)	(288,628)	20,314	(7,833)

	At 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**1,136,707**	4,525,191	4,377,434	4,565,772	1,286,483
Total liabilities	**(463,105)**	(606,250)	(325,399)	(588,887)	(472,116)
	673,602	3,918,941	4,052,035	3,976,885	814,367
Equity attributable to owners of the Company	**673,602**	3,918,941	4,052,035	3,976,885	772,375
Share options reserve of a subsidiary	**–**	–	–	–	2,238
Non-controlling interests	**–**	–	–	–	39,754
	673,602	3,918,941	4,052,035	3,976,885	814,367

Note: During the year ended 31 December 2010, the Group discontinued the consumer electronics operations.

During the year ended 31 December 2009, the Group discontinued the production of copper anode operations. The results for the years ended 31 December 2008 to 2009 as presented in the above table have been re-presented to include the results of such discontinued operations under "profit (loss) for the year from discontinued operations".

Corporate Information

EXECUTIVE DIRECTORS

Mr. Chu Kwok Chi Robert (Chief Executive Officer)
Mr. Hong Kin Choy (Chief Financial Officer)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Yuk Ming
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Hong Kin Choy

PRINCIPAL SHARE REGISTRAR

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Rosebank Centre
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BRANCH SHARE REGISTRAR

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26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

AUDIT COMMITTEE

Mr. Cheung Yuk Ming (Chairman)
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

REMUNERATION COMMITTEE

Mr. Qian Zhi Hui (Chairman)
Mr. Chu Kwok Chi Robert
Mr. Zhu Tiansheng

NOMINATION COMMITTEE

Mr. Qian Zhi Hui (Chairman)
Mr. Chu Kwok Chi Robert
Mr. Zhu Tiansheng

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AUDITOR

Deloitte Touche Tohmatsu

SHARE INFORMATION

Place of listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 0689
Board lot: 10,000 shares
Financial year end: 31 December
Number of Shares at 31 December 2012: 3,130,377,588
Share price at 31 December 2012: HK$0.183
Market capitalization at 31 December 2012: HK$573 million

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