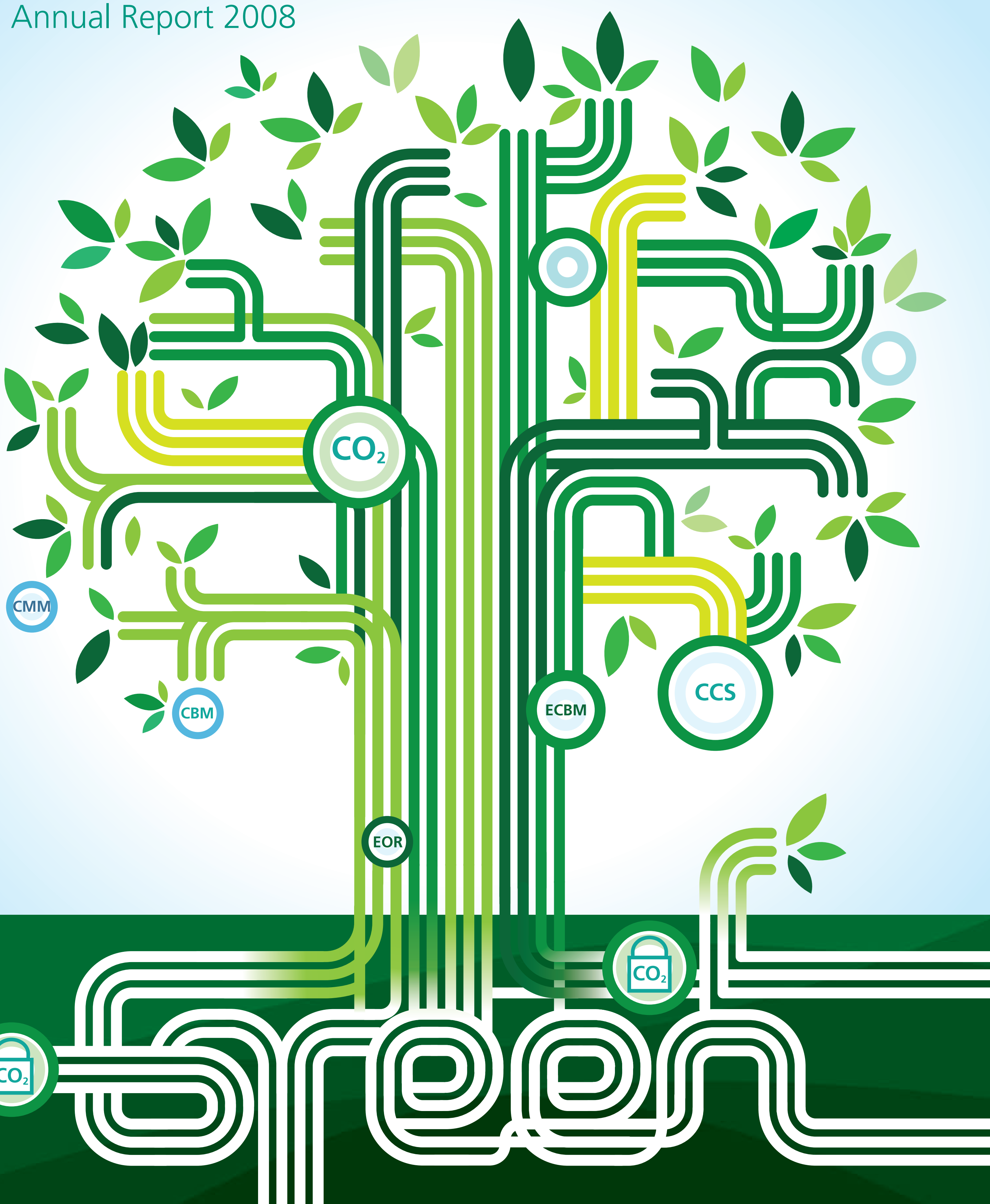
Enviro Energy International Holdings Limited

環能國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8182)

Annual Report 2008



What is CO_2?

Carbon Dioxide ("CO_2"), one of Earth's most abundant greenhouse gases, is generated from the combustion of fossil fuel, like coal. One million tons of CO_2 is equivalent to 1/4 of CO_2 emitted by one million cars. CO_2 induces global warming, which threatens our world economically, socially and politically.

What is CCS?

CCS involves the capture and separation of CO_2 at its sources, transportation via dedicated pipeline to a storage and injection into deep geological reservoirs.

What is CBM?

CBM is gas which is generally created during the formation of coal and is trapped within a coal seam by formation of water. CBM is chemically identical to other sources of gas, but is produced by non-conventional methods.

What is CMM?

CMM projects are performed prior to (or during) the production of coal reserves. This is done as a safety precaution as the build up of methane is a safety hazard.

What is ECBM?

Enhanced Coalbed methane recovery is a method of producing additional coalbed methane from a source rock, similar to enhanced oil recovery applied to oil fields. CO_2 is injected into a bituminous coalbed would occupy pore space and also adsorb onto the carbon in the coal at approximately twice the rate of methane (CH_4), allowing for potential enhanced gas recovery.

What is EOR?

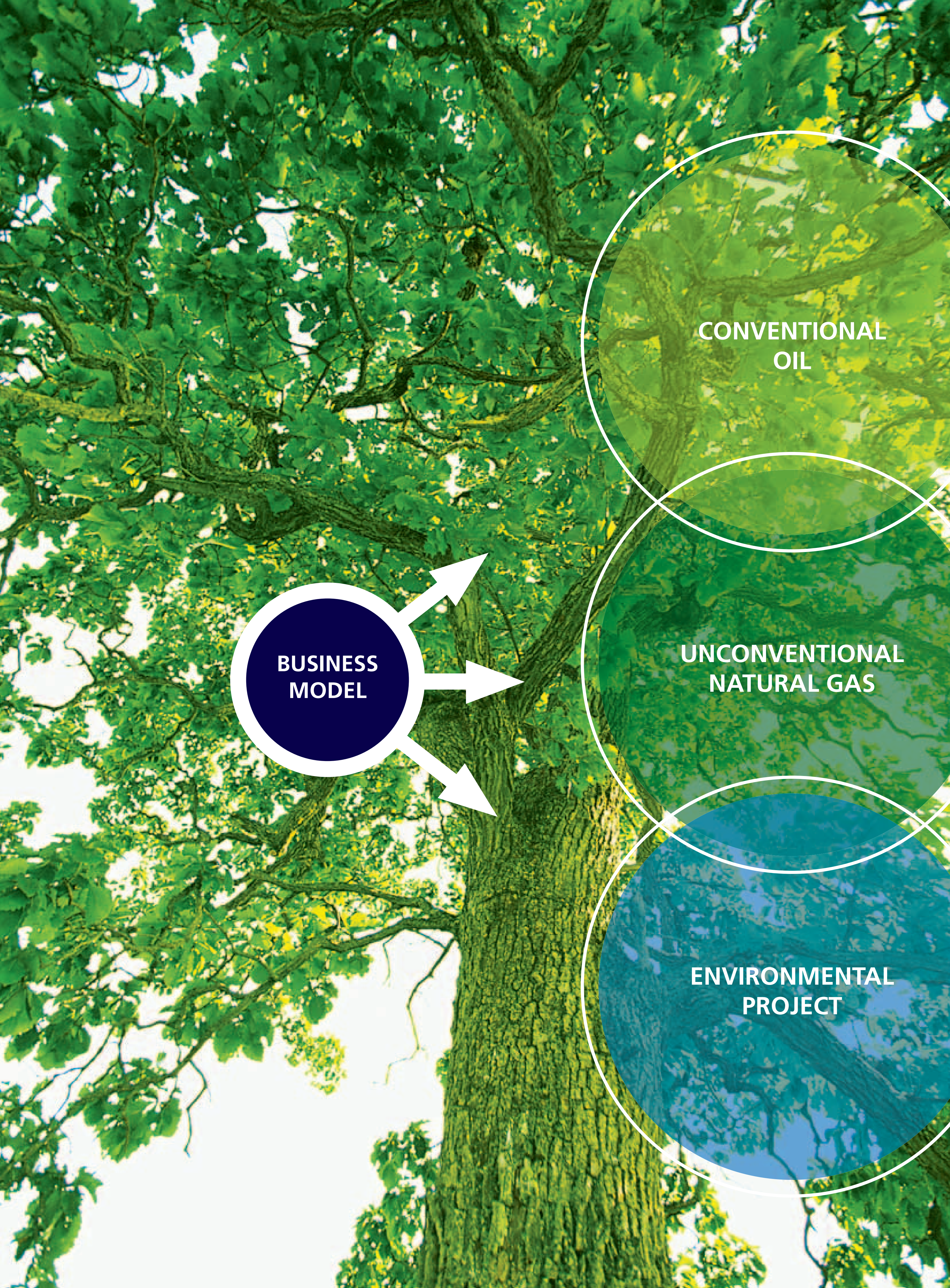
Enhanced Oil Recovery is a generic term for techniques for increasing the amount of oil that can be extracted from an oil field. Using EOR, 30-60%, or more, of the reservoir's original oil can be extracted compared with 20-40% using primary and secondary recovery.

CREATING A LOW CARBON ECONOMY

GREEN CULTURE
CLEAN STRATEGIES

“ As a green energy pioneer, Enviro Energy has a management team that places tireless effort towards promoting different energy projects that can help ease global warming. Via our technologies such as ECBM, we aim to play an active role in achieving a “gas economy”. ”

Mr. Kenny W. H. CHAN
Chairman and Chief Executive Officer
Enviro Energy International Holdings Limited


BUSINESS MODEL
CONVENTIONAL OIL
UNCONVENTIONAL NATURAL GAS
ENVIRONMENTAL PROJECT

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Ms. Mok Kam Sheung

COMPLIANCE OFFICER

Mr. Chan Wing Him Kenny

AUTHORISED REPRESENTATIVES

Mr. Chan Wing Him Kenny
Ms. Mok Kam Sheung

AUDIT COMMITTEE MEMBERS

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

REMUNERATION COMMITTEE MEMBERS

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

INDEPENDENT AUDITOR

SHINEWING (HK) CPA Limited

FINANCIAL ADVISOR

UOB Asia (Hong Kong) Limited

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

COMPANY WEBSITE

www.enviro-energy.com.hk

WE ARE ENERGIZING THE COUNTRY

"Recent years, China enjoys rapid economic growth at high cost of environmental degradation. Such imbalance is due to unreasonable economic structure and extensive growth mode. Without fast economic restructuring, transformation of growth mode, China's natural resources, environment and its economic development will not be able to achieve and sustain. We are left with no choice but to develop in an economical, clean and safe way. Energy conservation and pollutants reduction is an urgent demand of global climate change and the coal-dependant China should bear the responsibility to reduce pollutant emission. The current macro-control policy must focus on energy conservation and emission reduction in order to develop the economy while protecting the environment."

Mr. Wen Jiabao
Premier of The PRC
National Working Teleconference on
Energy Saving and Pollutants Reduction (2007)

25%

OF ALL CBM LIES
IN WESTERN
CHINA

CHAIRMAN'S STATEMENT

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

Dear Shareholders

I am pleased to present you the report of Enviro Energy International Holdings Limited ("**Company**", together with its subsidiaries and jointly-controlled entities, "**Group**" or "**Enviro Energy**") for the seventeen-month ended 31 December 2008.

Over the past seventeen-month period, public debate about energy policy, energy security and climate change has intensified against rising demand for energy. As the global economy struggles to undertake these critical issues, the energy sector is feeling the pressure to re-evaluate its business practices.

Nowadays, countries can no longer brand green investment as a luxury the world cannot afford, as enormous investment in the world's energy infrastructure is required in order to address the twin threats of energy insecurity and climate change. The pressing need for energy and environmental sustainability are not only a problem, but creates an opportunity for investors when measured on a risk-adjusted and total return basis. Moreover, within the energy sector, the evolving regulatory environment will have clear financial impacts on business models with high carbon exposure. Many segments of the energy industry will strengthen during this transition and deliver absolute return to investors.

In light of the above, during the seventeen-month period, the Group upheld its objective to invest in energy-related projects that are aligned with our corporate social responsibility to address some of the factors contributing to today's climate change, with a view to maximising shareholders' value.

During the reporting period, the Group reached its momentous milestones by completing two acquisitions and entering into a joint co-operation arrangement which reinforced the Group's strategic position in the People's Republic of China ("**PRC**") and in the energy industry.

In February 2008, we acquired Qian An Oil Development Co., Ltd. ("**Qian An**") and its results are accounted for under the equity accounting method in the Group's consolidated financial statements. In October 2008, we acquired a 63.91% controlling interests in TerraWest Energy Corp. ("**TWE**") which enabled the Group to be involved in the exploration and development of coalbed methane ("**CBM**") with the exclusive cooperation with China United Coalbed Methane Corporation Limited ("**CUCBM**"). From October to November 2008, TWE initiated and completed a two-well program of drilling activity and testing in Junggar Basin. TWE is scheduled to resume its drilling program in the Spring of 2009. Subsequent to the financial period end, the Company's indirect interests in TWE was diluted from 63.91% to 58.17%.

In January 2008, the Company entered into a joint venture agreement with Petromin Resources Limited ("**Petromin**") of Canada, and CUCBM in respect of Un-mineable Coal CO_2 Sequestration and Enhanced CBM Project ("**JV Project**"). The JV Project is supported by the Ministry of Science and Technology of the PRC and will involve injecting CO_2 into a coal formation to test CO_2 storage and enhanced CBM ("**ECBM**") production. We target to complete site selection and CO_2 injection program design before the end of 2009.

In recent years, the Group has been actively promoting different measures to reduce harmful emissions that are contributing to the increase in global warming, placing particular emphasis towards reducing CO_2 emissions. As a green energy pioneer, Enviro Energy has a responsible and world-class management team, which, I am pleased to announce, has been further strengthened and refined by increasing the role of key executives and appointing, among others, geological experts and engineers, financial experts and lawyer, who have extensive experience in their respective fields, to the technical, corporate finance and legal teams, respectively. As a team, we place tireless effort towards promoting and implementing different energy projects which contribute to reducing the production of greenhouse emissions via our access to technologies such as ECBM and carbon capture and storage ("**CCS**"). Our goal is to play an active role in achieving energy efficiency and sustainable development in the PRC and overseas.

With respect to corporate social responsibility, reflecting the Group's continued emphasis on environmental protection and reduction of CO_2 emission, in January 2008, the Company was honored with the "**Great Potential Energy Enterprise**" award in the "**8th Capital Outstanding Enterprise Awards**" presented by Capital magazine, a prominent financial magazine in Hong Kong. The awards are in recognition and acknowledgement of the excellent performance of listed companies in Hong Kong during 2007/08 in the areas of management and contribution to advancements of their respective industries.

For the seventeen-month period ended 31 December 2008, profit attributable to equity holders of the Company was approximately HK$18 million (Year ended 31 July 2007: Loss of approximately HK$46 million). Basic earnings per share for the seventeen-month period ended 31 December 2008 amounted to HK0.80 cents (Year ended 31 July 2007: Loss per share of HK4.22 cents).

Looking ahead to 2009, while the prospect of adapting Asia's energy system to use clean technology is daunting, addressing climate change presents significant business opportunities. Clean energy technologies such as ECBM and CCS will be part of the solution. The International Energy Agency recently noted that governments must take the lead by providing direct financing or financial incentives for CCS demonstration projects. Moreover, the G8 countries have announced that 20 large-scale CCS projects must be committed by 2010 at a cost of US$30 billion to US$50 billion.

With strong growth in demand for energy and large investments requirements over the coming years, supportive regulators should enable clean energy companies to create value for shareholders of the Company ("**Shareholders**"). Enviro Energy believes changes in market structure and regulations which have recently taken place, are planned, or have been proposed, notably in the PRC and the United States, will have far reaching consequences for the energy industry and will create opportunities for sophisticated investors. Long-term strategies for lower-carbon product lines may establish a market leadership position for the Group.

Based on the above, the Group's future development objectives remain committed to focusing on revenue-generating, advanced, low-risk energy development investment projects as well as opportunities to increase oil and natural gas reserves in the PRC and elsewhere while seeking opportunities to incorporate CO_2 sequestration and storage into enhanced production; and on easing factors that are contributing to global warming.

On behalf of the board of Directors of the Company ("**Board**"), I would like to take this opportunity to express my sincere appreciation to our valued Shareholders and business associates for their encouraging support, and to our team for their remarkable contributions to the rapid development of the Group and in making our vision a profitable reality for our Shareholders. Let us excel to a higher plateau together in the coming years!

Chan Wing Him Kenny
Chairman and CEO

Hong Kong, 23 March 2009

ECBM

GHG

"CCS" TECHNOLOGY FOR THE FUTURE

"Economic activities will consequently move rapidly towards a low carbon future. Those companies and entities that establish a lead in this endeavour would meet with success in both a business and a societal context. Those that lag behind would suffer the risk of losses in the marketplace and loss of prestige and reputation."

Mr. Rajendra Pachauri
Chairman of the Intergovernmental Panel on Climate Change
(Winner of 2007 Nobel Peace Prize)
World Economic Forum (2008)


The Group aims to create a new
“GAS
ECONOMY ”

MANAGEMENT DISCUSSION AND ANALYSIS

The Group was originally engaged in the business of Information Technology ("**IT**") solutions and services. However, due to increasing labour costs and keen price competition, and after careful evaluation and assessment of the business environment and operational performance of this business segment, management decided to scale-down the IT solutions and services business in July 2008 to minimise the Group's exposure to this market.

The Group is now focused on securing energy-related projects involving conventional oil, non-conventional natural gas and state-of-the-art oil and gas related environmental technologies.

BUSINESS REVIEW

Conventional oil

On 29 February 2008, the Company acquired 50% equity interests of Qian An. As a result, the Company is interested as to 50% in the oilfield of Qian An ("**Qian An Oilfield**") and the other 50% is owned and operated by PetroChina Company Ltd. ("**PetroChina**"). Qian An Oilfield is an operating oilfield with average production of approximately 352 barrels per day in 2008.

During 2008, the price of international crude oil experienced a dramatic increase in the first half of the year, reaching a historical high. However, with the global economic crisis, the crude oil price sank to approximately US$40 per barrel in December 2008, declining by more than 70% since the peak in mid-July 2008. The resulting oil price slide led to the decision by PetroChina as operator to decrease production levels at Qian An Oilfield since November 2008 and therefore affected the Group's share of post-acquisition profit and the relevant goodwill as at 31 December 2008.

Non-conventional natural gas

On 13 October 2008, the Company successfully acquired the entire issued share capital of Chavis International Limited ("**Chavis**"). Chavis currently owns approximately 58.17% of the existing issued common voting and preference shares of TWE, a private Canadian-incorporated company engaged in the exploration and development of CBM.

Currently, TWE holds a 47% interest in a production sharing contract ("**PSC**") with CUCBM in the PRC. The area of the PSC is leased out by PetroChina and covers 655 square kilometers (approximately 162,000 acres) of prospective land in the southern Junggar Basin adjacent to Urumqi, the capital city of Xinjiang, the PRC. The Junggar Basin is an active hydrocarbon producing region and natural gas pipeline infrastructure is in place. There are operating coal mines within the PSC area which are known to have extensive coal resources. The Urumqi city area is a growing market for natural gas and the area is linked to the transnational West-East pipeline which can carry natural gas to eastern PRC markets. A second West-East gas pipeline is under construction with a portion of the line crossing the PSC area. During October 2008 and November 2008, TWE initiated and completed a two-well program of drilling activity and testing in the PSC area.

Environmental

On 25 January 2008, supported by the Ministry of Science and Technology of the PRC, the Company executed a cooperative joint venture agreement ("**JV Agreement**") in respect of Un-mineable Coal CO_2 Sequestration and Enhanced CBM Project with Petromin. Pursuant to the JV Agreement, the Company holds a 20% participating interest in the JV Project which involves injecting CO_2 into a coal formation to test CO_2 storage and enhanced CBM production. Site selection and CO_2 injection program design are expected to be undertaken before the end of 2009. CUCBM operates the pilot project and the Group's technology partner, the Alberta Research Council of Canada, will provide expert consulting services.

BUSINESS PROSPECTS

Looking ahead, the Group's future business will focus on revenue-generating, advanced, low-risk energy development investment projects as well as opportunities to increase oil and natural gas reserves in the PRC and elsewhere while seeking opportunities to incorporate CO_2 sequestration and storage into enhanced production.

During the seventeen-month period ended 31 December 2008, global energy markets, reflecting the economy at large, went through an enormous swing from record high prices to cyclical lows. The Group remains optimistic that a recovery in energy commodity prices will occur in a timely fashion. Additionally, global concern over climate change will ensure continuing emphasis on sustainable development and mitigation of greenhouse gas emissions from hydrocarbon use.

Looking ahead at the Qian An operation in 2009, the Directors believe that with the expected return to higher petroleum prices, Qian An production will return to planned levels. The Group had carried out a technical feasibility study for the future development of Qian An Oilfield after 2008. The Group is confident that the petroleum price will rebound and further study will result in an increase in proven reserves, oil recovery and production at Qian An.

In respect of CBM, given the high demand for clean energy and concerns over environmental issues, CBM is regarded as a key source of alternative clean energy which can ease the acute shortage of natural gas in various regions of the world. In the PRC, reflecting the central government's policy to diversify energy sources, particularly to ease the growth of coal utilisation and develop domestic energy resources, a number of favorable policies and incentives to encourage CBM exploration and utilisation have been implemented. These policies and incentives include value-added tax waiver, corporate income tax relief, preferable access to pipeline transportation and CBM gas sales price subsidy. Under the 11th Five-year Plan, the PRC aims to achieve more than 10 billion cubic meters annual CBM production by 2010. The PRC is considered as one of the most prospective regions in the world for CBM development based on its widespread and high quality coal resources.

FINANCIAL REVIEW

The Board resolved in August 2008 to change the financial year-end date from 31 July to 31 December in order to ensure the Company's financial year-end date is coterminous with those of its subsidiaries and jointly-controlled entities. Accordingly, these consolidated financial statements for the period under review covered the seventeen-month period from 1 August 2007 to 31 December 2008 ("**seventeen-month period**"). The corresponding comparative figures covered a twelve-month period from 1 August 2006 to 31 July 2007 ("**2007**") and therefore may not be comparable with amounts shown for the current period.

IT and network infrastructure segment

For the seventeen-month period, the Group recorded an audited revenue of approximately HK$2.2 million (2007: HK$3.4 million) from the IT and network infrastructure segment. The decrease of revenue was mainly due to the severe competition and the Group's change of core business from IT and network infrastructure to energy-related business.

The management decided to scale-down the IT solutions and services business in July 2008 to minimise the Group's exposure to this market.

Oil and gas segment

The Group acquired 63.91% controlling stake in TWE at a consideration of US$4.031 million (equivalent to approximately HK$31.44 million) from an independent third party on 13 October 2008. In accordance with HKFRS 3 "Business Combination", the excess of 63.91% net fair value of TWE's identifiable assets, liabilities and contingent liabilities over the acquisition cost of US$4.031 million, a discount on acquisition of approximately HK$368 million was credited to the consolidated income statement for the seventeen-month period.

The Group recognised a post-acquisition profit of a jointly-controlled entity in the PRC of approximately HK$4.8 million and an impairment loss of goodwill of approximately HK$199 million resulted from significant drop in crude oil price since mid-July 2008 during the seventeen-month period.

Upon in-depth discussion with the Company's auditor, the Directors agreed with the views of the auditor that no intangible asset is identified in the acquisition of Qian An through Allied Resources Limited ("**Allied**"). According to HKAS 38, an intangible asset meets the identifiable criteria only if it is separable or arises from contractual or other legal rights. Except for a joint venture agreement signed between Jilin Hengli Industries Liability Co., Ltd. and PetroChina dated 1 November 2002 (the "**Qian An JV Agreement**"), there is no further exclusivity agreement in drilling and distribution of crude oil entered into between Qian An and PetroChina. In view of the fact that the intangible asset is not separately identified, a positive goodwill of approximately HK$290 million is therefore recognised, being the excess of the cost of acquisition over the Group's interest in the value of the identifiable assets, liabilities and contingent liabilities of the Allied group.

MANAGEMENT DISCUSSION AND ANALYSIS

This is contrary to the view adopted earlier by the Directors in their unaudited results for the nine-month period ended 30 April 2008, twelve-month period ended 31 July 2008 and fifteen-month period ended 31 October 2008 where a contractual-based intangible asset amounting to approximately HK$74 million, HK$47 million and HK$20 million, respectively, was recognised in the acquisition of Qian An through Allied, which resulted in a negative goodwill of approximately HK$223 million for the three different reporting periods. The Directors held the view that the Qian An JV Agreement conferred an exclusive drilling right to Qian An by PetroChina and is therefore identifiable and separable, the criteria of recognition of the intangible asset was met. With the finalisation of the seventeen-month period audit, the Directors had a detailed review of the recognition and taken into cognisance the interpretation adopted by the auditor of the accounting standards, the Directors concur with the current approach adopted.

Net exchange loss for the seventeen-month period was approximately HK$4.6 million (2007: Nil). The net exchange loss was mainly due to the combined effect of the appreciation of Renminbi against the Canadian dollars and US dollars.

Remuneration and employee compensation costs, including Directors' emoluments, totaled approximately HK$36 million for the seventeen-month period (2007: HK$20 million). The increase was mainly attributable to (1) an increase in the level of salaries resulted from the expansion in the scale of operations; and (2) an increase in performance bonuses to employees who worked for the benefit of the Group and contributed to the success in acquisition of the energy-related projects during the seventeen-month period.

Other administrative and operating expenses amounted to approximately HK$92.4 million (2007: HK$5 million) for the seventeen-month period. The substantial increase in administrative and operating expenses was primarily due to (1) larger scale of operation; (2) additional legal and professional fees resulted from the two energy-related acquisitions; (3) development expenses for newly acquired energy-related projects and exploration of potential merger and acquisition energy-related projects; and (4) increased resources allocated to promoting the Group's corporate image and capabilities.

As a result of the factors discussed above, profit attributable to equity holders of the Company amounted to approximately HK$18 million (2007: Loss of approximately HK$46 million) and EBITDA (earnings before interest, tax, depreciation and amortisation) amounted to approximately HK$22 million (2007: Loss of approximately HK$45 million) for the seventeen-month period.

LIQUIDITY AND FINANCIAL RESOURCES

For the seventeen-month period, the Group financed its operations primarily with internally generated cash flows and fund raised by previous share placings. The Group's current ratio stood at 3.2 times as at 31 December 2008 and 67.7 times as at 31 July 2007.

As at 31 December 2008, the Group had audited net assets of approximately HK$862 million (31 July 2007: HK$483 million). The substantial increase was mainly due to the recognition of an intangible asset and exploration and evaluation assets resulted from the acquisition of TWE on 13 October 2008.

As at 31 December 2008, the Group maintained a debt-free capital structure and did not have any charge on its assets (31 July 2007: Nil).

As at 31 December 2008, the Group had no payables incurred which were not in the ordinary course of business and accordingly the gearing ratio was nil (31 July 2007: Nil).

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31 December 2008, the Group had contracted but not provided for capital commitments amounted to approximately HK$22 million.

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

As detailed in the circular of the Company dated 31 January 2008, the completion of the acquisition of 50% interest in Qian An through Allied at a total consideration of approximately HK$366 million, which was satisfied by the payment in cash of HK$178 million and the issue of 110,000,000 new ordinary shares of HK$0.0025 each by the Company at an issue price of HK$1.708 per share, took place on 29 February 2008.

Also detailed in the circular of the Company dated 6 October 2008, the completion of the acquisition of 63.91% interest in TWE through Chavis at a total consideration of US$4.031 million, which was to be satisfied by the payment in cash of US$1.031 million and the issue of 93,600,000 new ordinary shares of HK$0.0025 each by the Company at an issue price of HK$0.25 per share, took place on 13 October 2008. Subsequent to the balance sheet date on 11 February 2009, 16,666,667 warrants of TWE were exercised. As a result, the Group's controlling interest in TWE was diluted from 63.91% to 58.17%.

Save as disclosed above, there were no other material acquisitions/disposals which would have been required to be disclosed under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("**GEM Listing Rules**").

Segmental information

Details of the segment information are set out in note 8 to the consolidated financial statements.

Employee's information

As at 31 December 2008, the Group had 21 full-time employees (31 July 2007: 18) working in Hong Kong and the PRC. The total employees' compensation costs, including Directors' emoluments, amounted to approximately HK$36 million for the seventeen-month period (2007: HK$20 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

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

Foreign exchange exposure

The Group mainly earned revenue and incurred costs in Hong Kong dollars, Renminbi, Canadian dollars and US dollars. Risk on exposure to fluctuation in exchange rates was insignificant to the Group despite there was fluctuation in the exchange rates between Renminbi against US dollars and Canadian dollars. The Directors and senior management will continue to monitor closely the exchange risk and will consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

On 29 February 2008, the Group acquired 100% of the issued share capital of Allied. Save for the amount due to the holding company of approximately HK$82,594,000, the accrued liabilities and other payables of approximately HK$28,069,000, the vendor, Global Richland Investment Limited, has agreed to indemnify the Group in respect of, among other matters, any losses or expenses incurred by the Group in respect of any other liabilities, tax provision, contingent liabilities and commitments of not exceeding in aggregate of HK$365.88 million and any liability incurred by the Group relating to tax and/or relief on or before the six anniversary of the date of completion, i.e. 28 February 2014.

On 13 October 2008, the Group acquired 100% of the issued share capital of Chavis. Save for the accrued liabilities and other payables disclosed in the unaudited consolidated financial statements of Chavis and its subsidiary as at 31 July 2008, the vendor, Ms. Cheng Miu Fong, has agreed to indemnify the Group in respect of, among other matters, any losses or expenses incurred by the Group in respect of any other liabilities, tax provision, contingent liabilities and commitments of not exceeding in aggregate of US$4.031 million and any liability incurred by the Group relating to tax and/or relief on or before the six anniversary of the date of completion, i.e. 12 October 2014.

CORPORATE GOVERNANCE REPORT

The Company is committed to attaining and maintaining a high standard of corporate governance with an emphasis on the principles of integrity, transparency and accountability. It believes that good corporate governance is fundamental to the success of the Company and to the enhancement of shareholders' value. The Company applied the principles and complied with the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("**CG Code**") set out in Appendix 15 to the GEM Listing Rules throughout the seventeen-month period, except for certain deviations as explained below. The Board will review the current practices at least annually, and make appropriate changes if considered necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted a code of conduct regarding securities transactions by directors ("**Securities Code**") on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all Directors, the Directors have complied with the Securities Code throughout the seventeen-month period.

BOARD OF DIRECTORS

As at 31 December 2008, the Board comprised five Directors, including two executive Directors, namely Mr. Chan Wing Him Kenny, the Chairman and Chief Executive Officer ("**CEO**") of the Company, and Dr. Arthur Ross Gorrell and three independent non-executive Directors ("**INEDs**"), namely Mr. David Tsoi, Mr. Lo Chi Kit and Mr. Tam Hang Chuen. Biographical details of the Directors are set out in the Directors and Senior Management section on pages 21 to 22.

The Board meets regularly and at least four times a year. The Board held 22 meetings during the seventeen-month period. The attendance record of each Director is as follows:

Name of Directors	**Attended/ eligible to attend**
Executive Directors	
Chan Wing Him Kenny	22/22
Arthur Ross Gorrell (appointed as non-executive Director on 1 December 2007 and re-designated as executive Director on 2 June 2008)	13/13
Chan Man Ching (resigned on 12 June 2008)	16/16
Independent Non-executive Directors	
David Tsoi (appointed on 8 July 2008)	2/2
Lo Chi Kit	22/22
Tam Hang Chuen	22/22
Poon Lai Yin Michael (resigned on 8 July 2008 and re-designated as Chief Financial Officer on 8 July 2008)	20/20

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

BOARD OF DIRECTORS *(CONTINUED)*

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

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

Throughout the seventeen-month period, the Board at all times met the requirements of the GEM Listing Rules relating to the appointment of at least three INEDs with at least one INED possessing appropriate professional qualifications or accounting or related financial management expertise. In addition, more than one-third of the composition of the Board consisted of INEDs so there is strong element of independence in the Board to exercise independent judgment. The Company has received from each INED an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of the INEDs met the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with terms of the guidelines. To the knowledge of the Directors, the Board members have no financial, business, family or other relationships with each other.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

- The INEDs form the majority of the Board.
- The Audit Committee composed exclusively of INEDs.
- The INEDs have free and direct access to the Company's external auditors and independent professional advice when considered necessary.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

NOMINATION OF DIRECTORS

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

INDEPENDENT AUDITORS' REMUNERATION

During the seventeen-month period, the independent auditors provided the following audit and permissible non-audit services to the Company:

	2008	2007
	HK$'000	HK$'000
Audit	**880**	250
Tax advisory	**11**	3
Other advisory services	**940**	10

BOARD COMMITTEES

The Board has established several committees. The terms of reference of the Audit Committee and Remuneration Committee (both hereinafter defined) are of no less exacting terms than those set out in the CG Code. All committees are provided with sufficient resources to discharge their duties.

MANAGEMENT COMMITTEE

The management committee of the Board ("**Management Committee**"), which comprises two executive Directors, namely Mr. Chan Wing Him Kenny and Dr. Arthur Ross Gorrell, was established on 22 June 2007 and operates as a general management committee with overall delegated authority from the Board. The Management Committee manages the daily operation of the Company and reports through the Chairman to the Board.

During the seventeen-month period, three meetings of the Management Committee had been held with the following attendances:

Name of Directors	**Attended/ eligible to attend**
Chan Wing Him Kenny	3/3
Arthur Ross Gorrell	3/3

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

AUDIT COMMITTEE

The audit committee of the Company ("**Audit Committee**") comprises three INEDs, namely, Mr. David Tsoi, Mr. Lo Chi Kit and Mr. Tam Hang Chuen with Mr. Tsoi as the chairman.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and the effectiveness of the Group's internal controls and risk management. The Audit Committee meets at least four times a year in reviewing the quarterly, interim and annual reports of the Company before submission to the Board for approval. Additional meetings were held during the seventeen-month period for approving matters in relation to, inter alia, the change of financial year-end date and independent auditor of the Company. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with the accounting standards, the GEM Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

During the seventeen-month period, eight meetings of the Audit Committee had been held with the following attendances:

Name of Directors	**Attended/ eligible to attend**
David Tsoi (appointed on 8 July 2008)	3/3
Lo Chi Kit	8/8
Tam Hang Chuen	8/8
Poon Lai Yin Michael (resigned on 8 July 2008 and re-designated as Chief Financial Officer on 8 July 2008)	5/5

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

REMUNERATION COMMITTEE

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

Ten meetings of the Remuneration Committee had been held during the seventeen-month period for reviewing and approving the remuneration package of certain newly appointed Directors and senior management. The attendance of each member is set out as follows:

Name of Directors	**Attended/ eligible to attend**
Poon Lai Yin Michael (resigned on 8 July 2008 and re-designated as Chief Financial Officer on 8 July 2008)	10/10
Lo Chi Kit	10/10
Tam Hang Chuen	10/10
Chan Wing Him Kenny (appointed on 8 July 2008)	Note

Note: Mr. Chan has been appointed as the chairman and a member of the Remuneration Committee in place of Mr. Poon since 8 July 2008. During the period from the date of his appointment to 31 December 2008, no meetings were held.

REMUNERATION COMMITTEE *(CONTINUED)*

Certain Directors and employees were granted bonus and share options under the Share Option Scheme (hereinafter defined) determined in accordance with the performance of the Group and the grantees. Subsequent to the seventeen-month period, all members of the Remuneration Committee met in January 2009 and reviewed and approved the year-end bonus for 2008 and the remuneration package for certain Directors and senior management. Members of the Remuneration Committee did not participate in the determination of their own remuneration.

ACCOUNTABILITY AND AUDIT

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

The statement of the auditor of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 28 to 29 of this annual report.

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

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining an adequate and effective internal control system and for reviewing its effectiveness to safeguard the Group's assets against unauthorised use or disposition, and to protect the interests of Shareholders. The Board through the Audit Committee had conducted an annual review on the system of internal control and risk management in respect of the seventeen-month period. The review covers all material controls, including financial, operational and compliance controls and risk management functions of the Group. The result of the review has been reported to the Board and areas of improvement have been identified and appropriate measures have been put in place to manage the risks.

SHAREHOLDERS' RIGHTS

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

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

Notice of general meetings and related circular are circulated to Shareholders prior to the general meetings. Details of each resolution proposed and voting procedures (including procedures for demanding a poll) and other relevant information are clearly set out in the circular. During the seventeen-month period, an annual general meeting and two extraordinary general meetings were held on 24 December 2007, 28 August 2007 and 18 February 2008, respectively. All resolutions put to Shareholders at those meetings were passed. The results of the voting by poll were published on the websites of the Company and the Stock Exchange.

Under Code Provision E.1.3 of the CG Code, listed issuers are recommended to give at least 20 clear business days of notice to Shareholders for annual general meetings. The Company, in accordance with the requirements under its Articles of Association, gave at least 21 days notice to its Shareholders before the convening of the forthcoming annual general meeting to be held on 20 April 2009 because the senior management and the auditor require more time to obtain a technical assessment report and a valuation report for assessment of fair value of the PSC held by TWE as at 31 December 2008. The Board is of the view that this has not caused any prejudice to the Shareholders.

INVESTOR RELATIONS

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

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

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. CHAN Wing Him Kenny, aged 58, has joined the Group since November 2006 as an executive Director and the Chairman and Chief Executive Officer of the Group. In addition, Mr. Chan is the chairman and a member of the Remuneration Committee. He is responsible for the Group's overall strategy and its execution. Mr. Chan is a director and co-chairman of Petromin, a connected person of the Company and which shares are listed on the Toronto Stock Exchange Venture Board ("**TSX**") and a director of Hollingport Venture Inc. ("**Hollingport**"), a company listed on TSX. Mr. Chan is a member of The Hong Kong Institute of Directors and vice president of China Energy World Executive Committee. His experience in international finance coupled with his deep understanding of the up-stream natural resource industry spans over 30 years.

Dr. Arthur Ross GORRELL, aged 63, was appointed as a non-executive Director on 1 December 2007 and has been redesignated as an executive Director since June 2008. Dr. Gorrell is responsible for business expansion and development of the Group. Dr. Gorrell has joined Petromin since 1990 as one of the founders and currently is a director and co-chairman and the president and chief executive officer of Petromin. He is also a director of, and a member of the audit committee for, Run of River Power Inc., which shares are listed on TSX and which is a producer of clean, green, renewable, hydroelectric power for the province of British Columbia, Canada. Dr. Gorrell is a director, the chief executive officer and president of Hollingport. As at the date of this report, Dr. Gorrell held approximately 4% shareholding in Petromin. Dr. Gorrell is the owner operator of Dr. A. Ross Gorrell Inc., a fee for service private practice dental clinic founded by Dr. Gorrell in 1968, in South Delta of British Columbia, Canada.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. David TSOI, aged 61, has joined the Group since July 2008 as an independent non-executive Director. Mr. Tsoi is also the chairman and a member of the Audit Committee. In addition, he is the managing director of Alliott, Tsoi CPA Limited and an independent non-executive director of MelcoLot Limited (which shares are listed on GEM) and China South Locomotive & Rolling Stock Corporation Limited (which shares are listed on the Main Board). Mr. Tsoi holds a master's degree in business administration from the University of Macau. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a member of the Institute of Chartered Accountants in England and Wales, the Society of Chinese Accountants and Auditors, the Certified General Accountants Association in Canada and Macau Society of Certified Practising Accountants.

Mr. LO Chi Kit, aged 48, has joined the Group since December 2006 as an independent non-executive Director. Mr. Lo is also a member of the Audit Committee and the Remuneration Committee, respectively. He is a businessman who has extensive experience in senior management and business operations, in particular, in the waste chemical treatment and the import and export of fruits and vegetables business. He has extensive connection throughout the Pacific Rim and Asian region.

Mr. TAM Hang Chuen, aged 53, has joined the Group since December 2006 as an independent non-executive Director. Mr. Tam is also a member of the Audit Committee and Remuneration Committee, respectively. He is a businessman with more than 21 years of experience in senior management and business operations, in particular, in the printing industry. Mr. Tam has broad connection with commercial groups in Asian region.

SENIOR MANAGEMENT

Mr. Donald O. DOWNING, aged 60, has been appointed as Vice President of the Company since 13 May 2008. Mr. Downing is responsible for strategic planning with responsibility for international commodity marketing and business development for all coalbed methane ("**CBM**") and related activities. Mr. Downing has over 35 years of experience in international marketing and business development for large corporations and management consultancy to the energy industry. He holds a master of science degree (business) from Pepperdine University in 1991, a master of science degree (mineral economics) from McGill University in 1977, a bachelor of arts degree (economics) and a bachelor of science degree (geology) from University of New Brunswick in 1974 and 1971, respectively. Previously he was head of the Coal Division of Esso Resources Canada Ltd. ("**Esso**") and President and CEO of Byron Creek Collieries, a unit of Esso. He also served as president of the Coal Association of Canada for six years (1993-1998) and subsequently was vice president and director of Norwest Corporation, a global energy/mining consulting company. With expert colleagues Mr. Downing has founded successful CBM and natural gas exploration companies in Canada and was a founding director of TWE, where he remains a director. He is a fellow of the Canadian Institute of Mining and Metallurgy (FCIM) and is regarded as an international energy industry expert.

Ms. MOK Kam Sheung, aged 49, has joined the Group as General Counsel since August 2008. She is also the Company Secretary and an Authorised Representative of the Company. She is mainly responsible for the legal and regulatory compliance as well as the general secretarial and corporate affairs of the Group. Ms. Mok has over 12 years of experience as a practising solicitor in Hong Kong, specialising in corporate finance and commercial laws with a strong emphasis on initial public offerings, secondary market fund raisings, and listed companies compliance and related transactions. Prior to joining the Group, she was a senior associate at DLA Piper Hong Kong, an international legal services organisation. Ms. Mok was admitted as a solicitor to the High Court of Hong Kong and England and Wales in 1997 and 1998, respectively. She is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Ms. Mok graduated from the College of Law, Chester, England and holds a bachelor of arts degree from the University of Plymouth, England.

Mr. David YIP, aged 38, has been appointed as Corporate Finance Director of the Company since May 2008. Mr. Yip is responsible for the sourcing, structuring and execution of corporate finance for the Group. Prior to joining the Group, Mr. Yip has more than 10 years of experience in the banking industry, including, positions with Merrill Lynch, HSBC and ING Barings. He has 10 years' experiences in executing financing transactions, including China Shenhua Energy, China Power International, Huaneng Power International and China Light & Power. Mr. Yip holds a bachelor of arts degree in economics from Canada.

Mr. POON Lai Yin Michael, aged 37, has been appointed as the Chief Financial Officer of the Group since July 2008. Mr. Poon is responsible for the overall financial management, internal control function and accounting function of the Group. He joined the Group in December 2006 as an independent non-executive Director, the chairman and a member of the Audit Committee and the Remuneration Committee, respectively. Mr. Poon has over 13 years of experience in auditing, taxation, accounting and financial management. He holds a bachelor's degree in administrative studies from York University in Canada and a master's degree in practicing accounting from Monash University in Australia. He is also an associate member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He is an independent non-executive director of The Quaypoint Corporation Limited and Sun International Group Limited, which shares are listed on the Main Board and GEM, respectively.

The Directors have pleasure in presenting to Shareholders their report and the audited consolidated financial statements for the seventeen-month period.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The Directors do not recommend the payment of any dividend in respect of the seventeen-month period.

The results of the Group for the seventeen-month period are set out in the consolidated income statement on page 30.

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the seventeen-month period are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the seventeen-month period are set out in note 29 to the consolidated financial statements.

RESERVES

As at 31 December 2008, the Company had no reserves available for distribution, except that under the provisions of the Companies Law of the Cayman Islands, the Company's share premium and capital reserve less accumulated losses, of approximately HK$444 million in aggregate as at 31 December 2008, may be distributed provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Details of movements in the reserves of the Group during the seventeen-month period are set out in the consolidated statement of changes in equity on page 32.

MAJOR CUSTOMERS AND SUPPLIERS

During the seventeen-month period, sales to the Group's five largest customers accounted for approximately 75% of the Group's total sales and sales to the largest customer included therein accounted for approximately 23%.

During the seventeen-month period, purchases from the Group's five largest suppliers accounted for approximately 62% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 32%.

Save as disclosed above, during the seventeen-month period none of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the issued share capital of the Company) had any beneficial interest in the Group's five largest customers or suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the seventeen-month period and up to the date of this report were:

Executive Directors:

Chan Wing Him Kenny	
Arthur Ross Gorrell	(appointed as non-executive Director on 1 December 2007 and re-designated as executive Director on 2 June 2008)
Chan Man Ching	(resigned on 12 June 2008)

Independent Non-executive Directors:

David Tsoi	(appointed on 8 July 2008)
Lo Chi Kit	
Tam Hang Chuen	
Poon Lai Yin Michael	(resigned on 8 July 2008 and re-designated as Chief Financial Officer on 8 July 2008)

In accordance with article 112 of the Articles of Association, Mr. David Tsoi will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election. The Company is of the view that Mr. Tsoi was and is considered as independent as he met the requirements set out in Rule 5.09 of the GEM Listing Rules. In accordance with article 108 of the Articles of Association, Mr. Chan Wing Him Kenny and Mr. Lo Chi Kit will retire from their offices at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company received from each of the INEDs an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considered all of the INEDs are independent.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Biographical details of the Directors and senior management of the Group are set out on pages 21 to 22 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Chan Wing Him Kenny and Dr. Arthur Ross Gorrell entered into a service contract with the Company on 20 December 2006 and 3 June 2008 for an initial fixed term of three years commencing from 29 December 2006 and 2 June 2008, respectively which shall continue thereafter, subject to termination by either party with not less than three months' notice served in writing to the other.

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2008, the interests and short positions of each Director and chief executive 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 SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

Name	Capacity	Nature of interests	Number of shares held	Number of underlying shares held	Total	Approximate % of shareholding
Chan Wing Him Kenny	(i) Interest of a controlled corporation (ii) Beneficial owner	(ii) Corporate interest (ii) Personal interest	(i) 1,183,180,000 (Note)	(ii) 15,847,200 (ii) 2,000,000 (ii) 500,000	1,201,527,200	51.42%
Arthur Ross Gorrell	Beneficial owner	Personal interest	2,625,000	1,500,000 700,000 500,000	5,325,000	0.23%

Long positions of chief executives in ordinary shares and underlying shares of the Company

Name	Capacity	Nature of interests	Number of shares held	Number of underlying shares held	Total	Approximate % of shareholding
Donald O. Downing	Beneficial owner	Personal interest	–	350,000	350,000	0.01%
Poon Lai Yin Michael	Beneficial owner	Personal interest	–	500,000	500,000	0.02%

Note: These shares are held by Colpo Mercantile Inc. ("Colpo"). The entire issued share capital of Colpo is beneficially owned by Mr. Chan Wing Him Kenny, the Chairman and the Chief Executive Officer of the Company and an executive Director, who is therefore deemed to be interested in the shares held by Colpo.

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

Save as disclosed above, as at 31 December 2008, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation that (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, the interests and short positions of 10% or more of the issued share capital of the Company held by the following party (other than a Director or chief executive of the Company) recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Name	Capacity	Number of ordinary shares held	Approximate % of shareholding
Colpo	Beneficially owned	1,183,180,000 (Note)	50.63%

Note: The entire issued share capital of Colpo was solely and beneficially owned by Mr. Chan Wing Him Kenny, the Chairman and the Chief Executive Officer of the Company and an executive Director, who is therefore deemed to be interested in 1,183,180,000 shares in the Company held by Colpo. Mr. Chan Wing Him Kenny's indirect interests in 1,183,180,000 shares in the Company held through Colpo have also been set out in the above section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures".

Save as disclosed above, as at 31 December 2008, no person (other than the Directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares and underlying shares and debentures" above) had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

GROUP'S EMOLUMENT POLICY

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

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

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

Directors' fees are subject to Shareholders' approval at general meetings and monitored by the Remuneration Committee on a continuous basis. Other emoluments are determined by the Remuneration Committee with reference to Directors' duties and responsibilities. Details of Directors' remuneration are set out in note 11 to the consolidated financial statements.

SHARE OPTION SCHEME

On 25 January 2003, the Pre-IPO Share Option Scheme (the "**Pre-Scheme**") and Post-IPO Share Option Scheme (the "**Share Option Scheme**") were approved pursuant to written resolutions of the Company. All the share options granted under the Pre-Scheme were lapsed. The purpose of the Share Option Scheme is to enable the Group to recognise the contribution of the participants to the Group and to motivate the participants to continuously work to the benefit of the Group by offering the participants an opportunity to have personal interest in the share capital of the Company.

Further details of the Share Option Scheme are set out in note 30 to the consolidated financial statements.

COMPETING BUSINESS AND CONFLICT OF INTERESTS

During the seventeen-month period, an executive Director and a management shareholder, namely Mr. Chan Wing Him Kenny and an executive Director, Dr. Arthur Ross Gorrell, are also directors of Petromin and TWE. The businesses of these two companies compete, or are likely to compete, directly or indirectly, with the Group's businesses.

Mr. Chan Wing Him Kenny is a director and co-chairman of Petromin whilst Dr. Arthur Ross Gorrell is the president, co-chairman and chief executive officer. Petromin is engaged in the acquisition and development of oil and gas properties.

Mr. Chan Wing Him Kenny is a director and co-chairman of TWE whilst Dr. Arthur Ross Gorrell is a director, co-chairman, president and chief executive officer. TWE is engaged in the exploration for oil and natural gas. TWE has become a non-wholly owned subsidiary of the Company since 13 October 2008.

Save as disclosed above, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or any of their respective associates had any interest in a business, which competes or may compete, either directly or indirectly, with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the seventeen-month period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER BALANCE SHEET DATE

Details of significant events occurring after the balance sheet date are set out in note 39 to the consolidated financial statements.

PUBLIC FLOAT

As at the date of this report, based on information available to the Company and within the knowledge of the Directors, the public float capitalisation amounted to approximately HK$122 million, representing approximately 49.37% of the issued share capital of the Company.

AUDITORS

On 12 November 2008, SHINEWING (HK) CPA Limited ("**SHINEWING**") was appointed by the Board to fill the casual vacancy created by Lak & Associates C.P.A. Limited. SHINEWING will retire and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

CHAN Wing Him Kenny
Chairman

Hong Kong, 23 March 2009

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ENVIRO ENERGY INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Enviro Energy International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 85, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the period from 1 August 2007 to 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company (the "Directors") are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of its profit and cash flows for the period from 1 August 2007 to 31 December 2008 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.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798
Hong Kong

23 March 2009

CONSOLIDATED INCOME STATEMENT

For the period from 1 August 2007 to 31 December 2008

	Notes	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Revenue	9	**2,213**	3,374
Cost of sales		**(1,818)**	(2,865)
Gross profit		**395**	509
Other operating income	9	**6,833**	6,151
Discount on acquisition		**367,973**	–
Impairment loss of goodwill	18	**(199,380)**	–
Share-based payments	30	**(32,868)**	(37,228)
Administrative and operating expenses		**(133,233)**	(15,406)
Share of results of jointly-controlled entities		**4,754**	–
Profit/(loss) before taxation	10	**14,474**	(45,974)
Income tax	13	**1,679**	–
Profit/(loss) for the period/year		**16,153**	(45,974)
Attributable to:			
Equity holders of the Company		**18,346**	(45,974)
Minority interests		**(2,193)**	–
		16,153	(45,974)
Earnings/(loss) per share	15		
Basic		**HK0.80 cents**	(HK4.22 cents)
Diluted		**HK0.78 cents**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Non-current assets			
Plant and equipment	16	4,198	524
Intangible assets	17	819,744	–
Goodwill	18	90,451	–
Interests in jointly-controlled entities	20	9,817	–
Available-for-sale investments	21	659	–
Exploration and evaluation assets	22	34,422	–
Club memberships		2,370	–
		961,661	524
Current assets			
Trade receivables	23	86	198
Deposits, prepayments and other receivables	24	4,895	94,546
Dividend receivable from a jointly-controlled entity	20	14,694	–
Bank balances and cash	25	133,740	395,115
		153,415	489,859
Current liabilities			
Trade payables	26	12,251	51
Accrued liabilities and other payables		35,607	7,186
Amount due to a Director	27	80	–
		47,938	7,237
Net current assets		105,477	482,622
Total assets less current liabilities		1,067,138	483,146
Non-current liabilities			
Deferred tax liabilities	28	204,936	–
Net assets		862,202	483,146
Capital and reserves			
Share capital	29	5,842	5,373
Share premium and reserves		625,058	477,773
Equity attributable to equity holders of the Company		630,900	483,146
Minority interests		231,302	–
Total equity		862,202	483,146

The consolidated financial statements on pages 30 to 85 were approved and authorised for issue by the Board of Directors on 23 March 2009 and are signed on its behalf by:

Chan Wing Him, Kenny
Director

Arthur Ross Gorrell
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 August 2007 to 31 December 2008

	Attributable to the equity holders of the Company									
	Share capital	Share premium	Capital reserve	Available-for-sales investments reserve	Share options reserve	Translation reserve	Accumulated losses	Total	Minority Interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 August 2006	3,962	29,686	19,980	–	–	(57)	(57,735)	(4,164)	–	(4,164)
Exchange differences arising from translation of foreign operations	–	–	–	–	–	(33)	–	(33)	–	(33)
Loss for the year	–	–	–	–	–	–	(45,974)	(45,974)	–	(45,974)
Total expenses recognised for the year	–	–	–	–	–	(33)	(45,974)	(46,007)	–	(46,007)
Issue of new shares	1,385	504,893	–	–	–	–	–	506,278	–	506,278
Recognition of equity settled share-based payments	–	–	–	–	37,228	–	–	37,228	–	37,228
Exercise of share options	26	1,208	–	–	(586)	–	–	648	–	648
Share issue expenses	–	(10,837)	–	–	–	–	–	(10,837)	–	(10,837)
As at 31 July 2007 and 1 August 2007	5,373	524,950	19,980	–	36,642	(90)	(103,709)	483,146	–	483,146
Exchange differences arising from translation of foreign operations	–	–	–	–	–	(16,683)	–	(16,683)	(10,510)	(27,193)
Loss on fair value changes of available-for-sale investments	–	–	–	(2,922)	–	–	–	(2,922)	–	(2,922)
Total income and expenses recognised directly in equity for the period	–	–	–	(2,922)	–	(16,683)	–	(19,605)	(10,510)	(30,115)
Profit for the period	–	–	–	–	–	–	18,346	18,346	(2,193)	16,153
Total income and expenses recognised for the period	–	–	–	(2,922)	–	(16,683)	18,346	(1,259)	(12,703)	(13,962)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	244,005	244,005
Recognition of equity settled share-based payments	–	–	–	–	32,868	–	–	32,868	–	32,868
Exercise of share options	194	11,428	–	–	(5,477)	–	–	6,145	–	6,145
Forfeiture of share options	–	–	–	–	(5,482)	–	5,482	–	–	–
Issue of new shares	275	109,725	–	–	–	–	–	110,000	–	110,000
As at 31 December 2008	5,842	646,103	19,980	(2,922)	58,551	(16,773)	(79,881)	630,900	231,302	862,202

CONSOLIDATED CASH FLOW STATEMENT

For the period from 1 August 2007 to 31 December 2008

	Note	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Operating activities			
Profit/(loss) before taxation		**14,474**	(45,974)
Adjustments for:			
Bank interest income		**(6,833)**	(211)
Discount on acquisition		**(367,973)**	–
Waiver of amount due to a former Director		**–**	(4,987)
Write down of inventories		**–**	13
Depreciation of plant and equipment		**1,033**	515
Write off of plant and equipment		**219**	21
Amortisation of intangible assets		**6,716**	–
Impairment loss of goodwill		**199,380**	–
Share of results of jointly-controlled entities		**(4,754)**	–
Share-based payments		**32,868**	37,228
Operating cash flow before movements in working capital		**(124,870)**	(13,395)
Increase in inventories		**–**	(10)
Decrease in trade receivables		**112**	497
Decrease in deposits, prepayments and other receivables		**8,996**	233
Increase/(decrease) in trade payables		**10,698**	(1,476)
(Decrease)/increase in accrued liabilities and other payables		**(53,077)**	4,688
Net cash used in operating activities		**(158,141)**	(9,463)
Investing activities			
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	33	**(86,707)**	–
Addition to exploration and evaluation assets		**(18,742)**	–
Purchase of plant and equipment		**(5,230)**	(373)
Purchase of available-for-sale investments		**(3,581)**	–
Purchase of club memberships		**(2,370)**	–
Bank interest received		**6,833**	211
Proceeds from disposal of plant and equipment		**332**	–
Deposit paid for acquisition of a subsidiary		**–**	(93,600)
Net cash used in investing activities		**(109,465)**	(93,762)

CONSOLIDATED CASH FLOW STATEMENT

For the period from 1 August 2007 to 31 December 2008

	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Financing activities		
Proceeds from exercise of share options	**6,145**	648
Increase in amount due to a Director	**80**	1,800
Proceeds from issue of ordinary shares	**–**	506,278
Share issue expenses	**–**	(10,837)
Net cash from financing activities	**6,225**	497,889
Net (decrease)/increase in cash and cash equivalents	**(261,381)**	394,664
Cash and cash equivalents at beginning of period/year	**395,115**	486
Effect of foreign exchange rate changes	**6**	(35)
Cash and cash equivalents at end of period/year, represented by bank balances and cash	**133,740**	395,115

1. GENERAL INFORMATION

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (Revised) of the Cayman Islands on 3 July 2002. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") on 18 February 2003. The address of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" in this report.

The Company is an investment holding company and the principal activities of its subsidiaries are set out in Note 19.

On 29 February 2008, the Group obtained 50% equity interest of Qian An Oil Development Co., Ltd. ("Qian An") through the acquisition of 100% equity interest in Allied Resources Limited ("Allied Resources"). Qian An is principally engaged in exploitation of petroleum resources activities and production of petroleum. The other 50% equity interests of Qian An is beneficially held by PetroChina Company Limited ("PetroChina"), whose "H" shares and American depository shares are listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange, Inc., respectively.

On 13 October 2008, the Company obtained 63.91% controlling interest of the existing issued and outstanding common voting and preference shares of TerraWest Energy Corp. ("TWE") through the acquisition of 100% equity interests in Chavis International Limited ("Chavis").

As at 31 December 2008, the Directors of the Company (the "Directors") consider the ultimate holding company of the Group is Colpo Mercantile Inc. ("Colpo"), a company incorporated in the British Virgin Islands.

The functional currency of the Company and its subsidiaries established in Hong Kong are Hong Kong dollars ("HK$"). The functional currencies of the subsidiaries established in the People's Republic of China (the "PRC") and Canada are Renminbi ("RMB") and Canadian dollars ("CAD") respectively. For the purposes of presenting the consolidated financial statements, the Group adopted HK$ as its presentation currency.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the current period cover the seventeen-month period ended 31 December 2008. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a twelve-month period from 1 August 2006 to 31 July 2007 and therefore may not be comparable with amounts shown for the current seventeen-month period. The change of financial year-end date ensures that the Company's financial year-end date is coterminous with those subsidiaries and jointly-controlled entities operating in the PRC and Canada.

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

In the current period, the Group has applied, for the first time, the following new standards, amendments and interpretations ("Ints") (hereinafter collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective for the Group's financial period beginning 1 August 2007.

Hong Kong Accounting Standard ("HKAS") 1 (Amendments)	Capital Disclosures
HKAS 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

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

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

HKFRSs (Amendments)	Improvement to HKFRSs[1]
HKAS 1(Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendments)	Eligible Hedged Item[3]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 and HKAS 39	Embedded Derivatives[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[3]

1 Effective for annual periods beginning on or after 1 January 2009, except the amendments to HKFRS 5, which are effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 January 2008.
5 Effective for annual periods beginning on or after 1 July 2008.
6 Effective for annual periods beginning on or after 1 October 2008.
7 Effective for annual periods ending on or after 30 June 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The Directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain intangible assets and financial instruments, which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

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.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in subsidiaries

Subsidiaries are entities that are controlled by the Company, where the Company has the power to govern the financial and operating policies of such entities so as to obtain benefits from their activities.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Business combination

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any cost directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial period. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition").

A discount on acquisition arising on an acquisition of a subsidiary, represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition. After reassessment, discount on acquisition is recognised immediately in profit or loss.

Jointly-controlled entities

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

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

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

Revenue from the sale of computer hardware and software and the provision of related network infrastructure construction services is recognised when the installation work is completed and the customer has accepted the goods together with significant risks and rewards of ownership.

Revenue from the rendering of network maintenance and reinforcement services is recognised on a time proportion basis over the period of the contract or when the related services are rendered.

Revenue from the rendering of other professional value-added solutions and services and data processing fee income is recognised when the related services are rendered.

Interest income from a financial asset 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Consultancy service income is recognised when the services are provided.

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

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of the assets to their estimated residual value, if any, over their estimated useful lives from the date on which they become fully operational, using the straight-line method.

An item of 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any subsequent accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Any revaluation increase arising on revaluation of intangible assets is credited to the intangible asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the intangible asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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. Exploration and evaluation assets include the cost of mining and exploration rights and the expenditures incurred in the search for mineral 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 mineral resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as either intangible assets or other plant and equipment. These assets are assessed for impairment before reclassification. When the technical feasibility and commercial viability of extracting mineral resources could not be proven, previously recognised exploration and evaluation assets would be expensed.

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with HKAS 36 Impairment of Assets whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

- the period for which the entity 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 mineral resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity 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 the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

Club memberships

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

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 in prior periods. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as revaluation increase under that standard.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet 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 are classified mainly loans and receivables and available-for-sale financial assets. 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 on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(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. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, deposits, other receivables, dividend receivable from a jointly-controlled entity and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated listed equity securities as well as unlisted equity securities as available-for-sales financial assets.

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

Impairment loss of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period ranged from 30 to 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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 original effective interest rate.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Impairment loss of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

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 through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including trade payables, accured liabilities and other payables and amount due to a Director) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. 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 directly in equity 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Share-based payment transactions

Share options granted to employees

For grants of share options which are conditional upon satisfying specified vesting conditions, 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). The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time 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 be transferred to retained profits.

Share options granted to consultants/advisors

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that 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 values of the goods or services received are recognised as expenses with a corresponding increase in equity (share options reserve) when the Group obtains the goods or when the counterparities render services, unless the goods or services qualify for recognition as assets.

Leasing

Leases are classified as finance leases 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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

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 period/year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits

Paid leave carried forward

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

Pension scheme

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

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

Long service payments

No provision has been recognised as no employees of the Group have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Estimation of gas reserves

Gas reserves are key factor in the Group's investment decision-making process. Estimates of gas reserves are the important element in determining the revalued amount of the intangible asset – production sharing contract and testing for their impairment. Proved plus probable reserves and unrisked prospective resources estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product gas prices, contract terms and development plants. In general, changes in the technical maturity of gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

Recognition of intangible asset – Production sharing contract

The fair value of the intangible asset at acquisition date has been arrived at on the basis of a valuation carried out by Vigers Appraisal & Consulting Limited ("Vigers") and a technical assessment report issued by Norwest Corporation ("Norwest"). Both the valuer and technical advisor are not connected with the Group and with appropriate qualifications and relevant experiences in the industry. The valuation conformed to the general guidance as stated in HKFRS 3 (45) on determining the fair values of intangible assets acquired in business combinations. The fair value of the intangible asset as at the acquisition date was arrived at by income approach valuation methodology.

Had different parameters and discount rate been used to determine the fair value of the intangible asset, the Group's results of operations and financial position could be materially different.

5. KEY SOURCES OF ESTIMATION UNCERTIANTY *(CONTINUED)*

Estimated impairment of assets

At each balance sheet date, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- Plant and equipment;
- Interests in jointly-controlled entities;
- Exploration and evaluation assets.
- Club memberships

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

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

Estimated impairment of goodwill

The Group tests on annual basis whether goodwill is impaired in accordance with the accounting policy stated in Note 4. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to rise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise.

Useful lives of plant and equipment and intangible assets

The Group has plant and equipment and intangible assets. The Group is required to estimate the useful lives of plant and equipment and intangible assets in order to ascertain the amount of depreciation and amortisation charges for each reporting period.

The useful lives are estimated at the time of purchase of these assets after considering future technology and economic changes and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends, rapid advancement in technology and significant downturns in the oil and gas prices. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

Valuation of share options granted

The fair value of share options granted was priced using a binomial opting pricing model which requires the management's estimates and assumptions on significant calculation inputs, including the estimated life of share options granted, the volatility of share price and expected dividend yield. Changes in the subjective input assumptions could materially affect the fair value estimate.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The Directors review the cost of capital and the associated risks on a regular basis, appropriate actions to adjust the Group's capital structure is adjusted in a timely manner. The overall strategy of the Group remained unchanged from prior year.

7. FINANCIAL INSTRUMENTS

7a. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, deposits, dividend receivable from a jointly-controlled entity, bank balances and cash, trade payables, accrued liabilities and other payables and amount due to a Director. Details of these financial instruments are disclosed in respective notes.

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

Currency risk

The Group's exposure to currency risk is attributable to the trade receivables, bank balances and cash and trade payables of the Group which are denominated in foreign currencies of United State dollars ("US$"). The functional currencies of the relevant group entities are HK$, RMB and CAD. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure since HK$ is pegged to the US$ and majority transactions are conducted in functional currencies of relevant group entities, the Directors consider the Group's exposure to currency risk is minimal. However, the Directors monitor the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Financial assets		
Trade receivables	**23**	–
Other receivables	**2,750**	–
Bank balances and cash	**2,502**	12
	5,275	12
Financial liabilities		
Trade payables	**3,126**	36

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

7a. Financial risk management objectives and policies *(Continued)*

Interest rate risk

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

The sensitivity analysis below have been determined based on the exposure to interest rates for interest bearing bank balances at the balance sheet date. The analysis is prepared assuming the relevant assets outstanding at the balance sheet date were outstanding for that whole year. If interest rates had been 1% higher/lower and all other variables were held constant, the profit for the period from 1 August 2007 to 31 December 2008 would increase/decrease by approximately HK$1,337,000 (loss for the year ended 31 July 2007: decrease/increase by approximately HK$3,951,000).

A 1% increase or decrease in interest rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Other price risk

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the balance sheet dates. If the prices of the respective equity instruments had been 5% higher/lower, the investment revaluation reserve would increase/ decrease by approximately HK$33,000 (2007: Nil) for the Group as a results of the changes in fair values of the available-for-sale investments.

Oil and gas price risk

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

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

Credit risk

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

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

7. FINANCIAL INSTRUMENTS *(CONTINUED)*

7a. Financial risk management objectives and policies *(Continued)*

Liquidity risk management

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

The maturity dates of all financial liabilities are within one year as at the respective balance sheet dates.

7b. Fair value

The fair value of financial assets and financial liabilities is determined as follow:

– The fair value of financial assets and financial liabilities with standard terms and conditions and trade on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

– The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs. For an option-based derivative, the fair value is estimated using option pricing model.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to the short term maturities.

7c. Categories of financial instruments

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Trade receivables	86	198
Deposits and other receivables	3,824	93,916
Dividend receivable from a jointly-controlled entity	14,694	–
Bank balances and cash	133,740	395,115
	152,344	489,229
Available-for-sale financial assets	659	–
Financial liabilities		
Financial liabilities at amortised cost		
Trade payables	12,251	51
Accrued liabilities and other payables	35,598	6,929
Amount due to a director	80	–
	47,929	6,980

8. SEGMENT INFORMATION

Business segments

Segment information is presented by way of the Group's primary segment reporting basis, by business segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

Summary details of the business segments are as follows:

Information technology related services

(i) Network infrastructure construction solutions	Provision of hardware and software for network infrastructure solutions and the design and installation of network infrastructure systems.
(ii) Network infrastructure maintenance and reinforcement services	Provision of support and maintenance services to customers' existing computer networks and systems.
(iii) Other professional value-added solutions and services	Provision of server co-location and management services, web-hosting and e-mail hosting services, web-based software applications and the provision of user training services.

Oil and gas exploration

(iv) Upstream oil and gas exploration	Exploration, development and production of petroleum, coalbed methane ("CBM") and nature gas

No geographical segments information of the Group is shown as the Group's operations, sales by geographical market and assets are substantially located in the PRC including Hong Kong.

8. SEGMENT INFORMATION *(CONTINUED)*

An analysis of the Group's revenue and profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments is as follows :

	Information technology related services			Oil and gas exploration	
	Network infrastructure construction solutions HK$'000	Network infrastructure maintenance and reinforcement services HK$'000	Other professional value-added solutions and services HK$'000	Upstream oil and gas exploration HK$'000	Consolidated HK$'000
From 1 August 2007 to 31 December 2008					
Segment revenue:					
Sales to external customers	521	787	905	–	2,213
Segment results	75	271	49	–	395
Unallocated income					6,833
Unallocated expenses					(166,101)
Impairment loss of goodwill				(199,380)	(199,380)
Discount on acquisition				367,973	367,973
Share of results of jointly-controlled entities				4,754	4,754
Profit before taxation					14,474
Income tax					1,679
Profit for the period					16,153
As at 31 December 2008					
Segment assets	248	25	–	857,322	857,595
Interests in jointly-controlled entities	–	–	–	9,817	9,817
Goodwill				90,451	90,451
Unallocated assets					157,213
Total assets					1,115,076
Segment liabilities	331	266	–	35,017	35,614
Unallocated liabilities					217,260
Total liabilities					252,874

8. SEGMENT INFORMATION *(CONTINUED)*

	Information technology related services			Oil and gas exploration		
	Network infrastructure construction solutions HK$'000	Network infrastructure maintenance and reinforcement services HK$'000	Other professional value-added solutions and services HK$'000	Upstream oil and gas exploration HK$'000	Unallocated HK$'000	Consolidated HK$'000
From 1 August 2007 to 31 December 2008						
Other segment information:						
Capital additions	–	–	–	–	5,230	5,230
Depreciation of plant and equipment	–	–	–	–	1,033	1,033
Write off of plant and equipment	–	–	–	–	219	219
Impairment loss of goodwill	–	–	–	199,380	–	199,380
Amortisation of intangible assets	–	–	–	6,716	–	6,716

8. SEGMENT INFORMATION *(CONTINUED)*

	Information technology related services			Oil and gas exploration	
	Network infrastructure construction solutions HK$'000	Network infrastructure maintenance and reinforcement services HK$'000	Other professional value-added solutions and services HK$'000	Upstream oil and gas exploration HK$'000	Consolidated HK$'000
For the year ended 31 July 2007					
Segment revenue:					
Sales to external customers	920	1,602	852	–	3,374
Segment results	50	975	(266)	–	759
Unallocated income					5,308
Unallocated expenses					(52,041)
Finance costs					–
Loss before taxation					(45,974)
Income tax					–
Loss for the year					(45,974)
As at 31 July 2007					
Segment assets	39	251	342	–	632
Unallocated assets					489,751
Total assets					490,383
Segment liabilities	57	96	283	–	436
Unallocated liabilities					6,801
Total liabilities					7,237

8. SEGMENT INFORMATION *(CONTINUED)*

	Information technology related services			Oil and gas exploration		
	Network infrastructure construction solutions HK$'000	Network infrastructure maintenance and reinforcement services HK$'000	Other professional value-added solutions and services HK$'000	Upstream oil and gas exploration HK$'000	Unallocated HK$'000	Consolidated HK$'000
For the year ended 31 July 2007						
Other segment information:						
Capital additions	–	–	–	–	373	373
Depreciation of plant and equipment	–	–	–	–	515	515
Write off of plant and equipment	–	–	–	–	21	21
Write down of inventories	13	–	–	–	–	13

9. REVENUE AND OTHER OPERATING INCOME

Revenue represents amount receivable for goods sold and services provided in the normal course of business, net of sales related taxes.

An analysis of the Group's revenue and other operating income is as follows:

	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Revenue		
Network infrastructure construction solutions		
– Sale of computer hardware and software and the provision of related services	**521**	920
Rendering of network infrastructure maintenance and reinforcement services	**787**	1,602
Other professional value-added solutions and services	**905**	852
	2,213	3,374
Other operating income		
Bank interest income	**6,833**	211
Consultancy fee	**–**	80
Waiver of amount due to a former Director (Note)	**–**	4,987
Sundry income	**–**	843
Exchange gain, net	**–**	30
	6,833	6,151
Total	**9,046**	9,525

Note: Amount due to a former Director, Mr. Lam Chi Shing, of approximately HK$4,987,000, represented fund advanced to the Company, was waived. Such waiver was approved by Mr. Lam Chi Shing on 10 November 2006.

10. PROFIT/(LOSS) BEFORE TAXATION

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

	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Cost of inventories sold	**447**	718
Cost of services provided*	**1,371**	2,147
Depreciation for plant and equipment (Note 16)	**1,033**	515
Write off of plant and equipment	**219**	21
Write down of inventories (included in cost of sales)	**–**	14
Amortisation of intangible assets (Note 17)	**6,716**	–
Auditor's remuneration	**880**	250
Staff costs, including Directors' emoluments (Note 11)		
– Salaries, allowances and other benefits	**22,506**	7,661
– Retirement benefit scheme contributions	**270**	200
– Share-based payments	**1,262**	12,000
– Discretionary and performance related incentive payments	**11,812**	–
	35,850	19,861
Exchange loss, net	**4,610**	–
Share of tax of jointly-controlled entities (included in share of results of jointly-controlled entities)	**3,707**	–

* The cost of services provided includes approximately HK$747,000 (Year ended 31 July 2007: HK$1,223,000) relating to staff costs, which are also included in the total amounts of staff costs disclosed separately above.

11. DIRECTORS' EMOLUMENTS

The Directors' emoluments for the period from 1 August 2007 to 31 December 2008 and year ended 31 July 2007 disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

From 1 August 2007 to 31 December 2008 Name of Directors	Directors' fees HK$'000	Salaries, allowances and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Share-based payments HK$'000	Discretionary and performance related incentive payments (Note) HK$'000	Total HK$'000
Executive Directors						
Chan Wing Him, Kenny	–	9,655	17	16	7,000	16,688
Chan Man Ching (resigned on 12 June 2008)	–	1,344	11	–	2,060	3,415
Arthur Ross Gorrell (appointed as non-executive Director on 1 December 2007 and re-designated as executive Director on 2 June 2008)	48	112	–	949	–	1,109
	48	11,111	28	965	9,060	21,212
Independent non-executive Directors						
David Tsoi (appointed on 8 July 2008)	58	–	–	–	–	58
Poon Lai Yin, Michael (resigned and re-designated as Chief Financial Officer on 8 July 2008)	110	–	–	16	–	126
Lo Chi Kit	85	–	–	–	–	85
Tam Hang Chuen	85	–	–	–	–	85
	338	–	–	16	–	354
Total	386	11,111	28	981	9,060	21,566

11. DIRECTORS' EMOLUMENTS *(CONTINUED)*

Year ended 31 July 2007 **Name of Directors**	Directors' fees HK$'000	Salaries, allowances and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Share-based payments HK$'000	Discretionary and performance related incentive payments (Note) HK$'000	Total HK$'000
Executive Directors						
Chan Wing Him, Kenny (appointed on 29 November 2006)	–	2,601	7	3,610	–	6,218
Chan Man Ching (appointed on 29 November 2006)	–	745	9	3,610	–	4,364
Chan Chi Hung (resigned on 20 December 2006)	–	226	5	–	–	231
Yuen Kin Tong (resigned on 20 December 2006)	4	–	–	–	–	4
	4	3,572	21	7,220	–	10,817
Independent non-executive Directors						
Poon Lai Yin, Michael (appointed on 20 December 2006)	37	–	–	–	–	37
Lo Chi Kit (appointed on 20 December 2006)	37	–	–	–	–	37
Tam Hang Chuen (appointed on 20 December 2006)	37	–	–	–	–	37
Lau Siu Ki, Kevin (resigned on 20 December 2006)	70	–	–	–	–	70
Wang Yat Yee, Mark (resigned on 20 December 2006)	46	–	–	–	–	46
Zhang Guo Xuan (resigned on 20 December 2006)	10	–	–	–	–	10
	237	–	–	–	–	237
Total	241	3,572	21	7,220	–	11,054

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

During the period from 1 August 2007 to 31 December 2008, no emolument or incentive payments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office (Year ended 31 July 2007: nil). There was no arrangement under which the Directors waived or agreed to waive any emoluments in both period/year.

12. EMPLOYEES' EMOLUMENTS

During the period/year, three (2007: two) of the five individuals with the highest emoluments in the Group were Directors whose emoluments are disclosed in Note 11 above. Details of the emoluments of the remaining two (2007: three) individuals were as follows:

	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Salaries, allowances and other benefits	**3,383**	1,163
Retirement benefit scheme contributions	**18**	23
Share-based payments	**249**	3,755
Discretionary and performance related incentive payments	**2,200**	–
	5,850	4,941

The emoluments were within the following bands:

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	1
	2	3

During the period from 1 August 2007 to 31 December 2008 and the year ended 31 July 2007, no emolument was paid to the five highest paid individuals (including both Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

13. INCOME TAX

	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Current tax	**–**	–
Deferred tax (Note 28)	**1,679**	–
Income tax credit	**1,679**	–

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

13. INCOME TAX *(CONTINUED)*

No Hong Kong Profits Tax had been provided as the Group did not have any assessable profits in Hong Kong for the period from 1 August 2007 to 31 December 2008 and the year ended 31 July 2007.

PRC Enterprise Income Tax had not been provided as the Group did not have any assessable profits during the period from 1 August 2007 to 31 December 2008 and year ended 31 July 2007.

The Company's non wholly-owned subsidiary, TWE, incorporated under the laws of British Columbia, Canada, is subject to Income Tax Act (Canada) at a rate of 30%. TWE has been reporting tax loss since its incorporation.

The tax credit for the period from 1 August 2007 to 31 December 2008 and year ended 31 July 2007 can be reconciled to the profit/(loss) per the consolidation income statement as follows:

	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Profit/(loss) before taxation	**14,474**	(45,974)
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	**2,388**	(8,045)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,438)**	(45)
Tax effect of:		
– share of results of jointly-controlled entities	**(784)**	–
– income not subject to tax	**(64,020)**	(824)
– expenses not deductible for tax	**61,532**	7,312
– temporary differences not recognised	**–**	58
– tax losses not recognised as deferred tax assets	**643**	1,544
Income tax credit	**(1,679)**	–

The Group has unrecognised deferred tax assets from estimated tax losses of approximately HK$3,095,000 (Year ended 31 July 2007: HK$2,452,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Included in unrecognised tax losses are losses arising from the PRC subsidiary of approximately HK$96,000 (Year ended 31 July 2007: HK$1,819,000) that will expire in five years from the respective year of loss. Other losses could be carried forward indefinitely.

14. DIVIDENDS

No dividend was paid or proposed during the period from 1 August 2007 to 31 December 2008 and year ended 31 July 2007, nor has any dividend been proposed since the respective balance sheet dates.

15. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/loss per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period from 1 August 2007 to 31 December 2008 and year ended 31 July 2007.

Basic earnings/(loss) per share are calculated as follows:

	Period from 1 August 2007 to 31 December 2008	Year ended 31 July 2007
Profit/(loss) attributable to equity holders of the Company for the purpose of basic earnings/(loss) per share (HK$'000)	18,346	(45,974)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share ('000)	2,285,644	1,088,130
Basic earnings/(loss) per share (in HK cents)	0.80	(4.22)

The weighted average number of shares for the period from 1 August 2007 to 31 December 2008 is 2,285,644,000 (Year ended 31 July 2007: 1,088,130,000), which is calculated as if the share subdivision for each share of par value HK$0.005 each into two subdivided shares of par value of HK$0.0025 each on 29 August 2007 had been completed before the beginning of the year ended 31 July 2007.

(b) Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	Period from 1 August 2007 to 31 December 2008	Year ended 31 July 2007
Profit/(loss) attributable to equity holders of the Company for the purpose of diluted earnings/(loss) per share (HK$'000)	18,346	(45,974)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share ('000)	2,285,644	1,088,130
Effect of dilutive potential ordinary shares in respect of deferred consideration for acquisition of subsidiary ('000) (Note 33)	14,275	–
Effect of dilutive potential ordinary shares in respect of share options ('000)	38,361	1,592
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share ('000)	2,338,280	1,089,722
Diluted earnings/(loss) per share (in HK cents)	0.78	N/A

Diluted loss per share for the year ended 31 July 2007 has not been presented, as the share options outstanding had an anti-dilutive effect.

16. PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Computer equipment and software HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
As at 1 August 2006	532	1,387	130	251	–	2,300
Exchange realignment	–	5	–	1	–	6
Additions	207	42	79	45	–	373
Disposals	–	(70)	–	(3)	–	(73)
Write off	–	(77)	(43)	–	–	(120)
As at 31 July 2007 and 1 August 2007	739	1,287	166	294	–	2,486
Exchange realignment	–	10	–	2	–	12
Additions	1,020	309	468	79	3,354	5,230
Acquisition of a subsidiary (Note 33)	–	19	–	6	–	25
Disposals	–	(11)	–	–	(331)	(342)
Write off	(739)	(751)	(109)	(209)	–	(1,808)
As at 31 December 2008	**1,020**	**863**	**525**	**172**	**3,023**	**5,603**
Accumulated depreciation:						
As at 1 August 2006	186	1,144	70	214	–	1,614
Exchange realignment	–	4	–	1	–	5
Provided for the year	281	187	24	23	–	515
Eliminated on disposals	–	(70)	–	(3)	–	(73)
Write off	–	(77)	(22)	–	–	(99)
As at 31 July 2007 and 1 August 2007	467	1,188	72	235	–	1,962
Exchange realignment	–	7	–	2	–	9
Provided for the period	428	121	84	40	360	1,033
Eliminated on disposals	–	(3)	–	–	(7)	(10)
Write off	(591)	(731)	(64)	(203)	–	(1,589)
As at 31 December 2008	**304**	**582**	**92**	**74**	**353**	**1,405**
Carrying values:						
As at 31 December 2008	**716**	**281**	**433**	**98**	**2,670**	**4,198**
As at 31 July 2007	272	99	94	59	–	524

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	33% or over the lease terms, whichever is shorter
Computer equipment and software	30 – 50%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	25%

17. INTANGIBLE ASSETS

	Production sharing contract HK$'000
Valuation	
As at 1 August 2007	–
Acquisition of a subsidiary (Note 33)	863,659
Exchange realignment	(37,347)
As at 31 December 2008	**826,312**
Amortisation	
As at 1 August 2007	–
Provided during the period	6,716
Exchange realignment	(148)
As at 31 December 2008	**6,568**
Carrying values	
As at 31 December 2008	**819,744**
As at 31 July 2007	–

Through the acquisition of 63.91% controlling interest in TWE on 13 October 2008, the Group has obtained a coal bed methane production sharing contract ("PSC"). Before the acquisition, TWE and China United Coalbed Methane Corporation Limited ("CUCBM") entered into the PSC dated 30 December 2005.

Pursuant to the PSC, TWE was engaged as a foreign partner to provide funds and apply its technology and managerial experience to co-operate with CUCBM, which is eligible to apply for an exclusive right to exploitation of CBM in a block covering approximately 655 square kilometers in the Junggar Basin of Xinjiang Province in the northwest of the PRC ("Contract Area"), to explore, develop and produce CBM.

According to the PSC, all the costs incurred in the exploration stage shall be borne by the Group. Upon submission of the overall development programme and approval by the relevant PRC Government Authorities, the operation shall enter into the stage of development and since then, all the development and operating costs shall be borne in the proportion of 47% by the Group and 53% by CUCBM.

The PSC provides a term of thirty consecutive years, with production period not more than twenty consecutive years commencing on a date determined by the joint management committee which was set up by TWE and CUCBM, pursuant to the PSC, to oversee the operations in the Contract Area. Currently the block covered by the PSC is in the exploration stage.

The PSC is amortised on straight-line basis over the remaining contract terms of 28 years.

17. INTANGIBLE ASSETS *(CONTINUED)*

The PSC is carried at a revalued amount of approximately CAD130,377,000, being its fair value as at 31 December 2008. The fair value has been arrived at on the basis of a valuation carried out on that date by Vigers and a technical assessment report issued by Norwest. Both Vigers and Norwest are consultants independent of the Group. Such valuation has been carried out using cash flow projections based on financial budgets approved by the management and concurred by Norwest and applying the discounted cash flow technique.

Had the PSC been carried at cost less any accumulated amortisation and any accumulated impairment losses, the carrying amounts would be approximately HK$819,744,000.

18. GOODWILL

	HK$'000
Cost	
As at 1 August 2007	–
Arising on acquisition of a subsidiary (Note 33)	289,831
As at 31 December 2008	**289,831**
Impairment loss:	
As at 1 August 2007	–
Impairment loss recognised	199,380
As at 31 December 2008	**199,380**
Carrying values:	
As at 31 December 2008	**90,451**
As at 31 July 2007	–

The goodwill is resulted from the acquisition of Allied Resources as detailed in Note 33.

The management considers the primary segment as the cash-generating unit ("CGU") for the purpose of goodwill impairment testing. As at 31 December 2008, the carrying amount of goodwill of approximately HK$289,831,000 is allocated to the upstream oil and gas exploration segment.

The recoverable amounts of the upstream oil and gas exploration's CGU are determined from value in use calculations based on the cashflow forecast of such CGU. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to oil price and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the upstream oil and gas exploration's CGU. The growth rates is the past ten-year average worldwide oil price growth rate. Changes in selling prices and direct costs are based on past practices and expectation of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 8 years on an estimated growth pattern at growth rates of 20.78% and a discount rate of 8.56%.

During the period ended 31 December 2008, due to the decline in oil prices and market condition, an impairment loss of approximately HK$199,380,000 was recognised in the consolidated income statement.

19. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries held by the Company as at 31 December 2008 are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sys Solutions (BVI) Limited	British Virgin Islands/ Hong Kong	US$10,000 ordinary	100	–	Investment holding
Allied Resources Limited	Hong Kong	HK$1 ordinary	100	–	Investment holding
Rich Concept Technology Limited	British Virgin Islands/ Hong Kong	US$10,000 ordinary	100	–	Investment holding
Sys Solutions (China) Limited	Hong Kong	HK$1,000,000 ordinary	–	100	Inactive
Jilin Hengli Industries Liability Co., Ltd#	PRC	RMB12,155,800	–	100	Investment holding
Chavis International Limited	British Virgin Island/ Hong Kong	US$1 ordinary	–	100	Investment holding
TerraWest Energy Corp.	British Columbia, Canada	CAD 2,967,000 common voting stock with no par value	–	63.91	CBM and natural gas exploration and development
		CAD 3,771,603 preferred stock with no par value			
Sys Solutions Limited	Hong Kong	HK$1,000,000 ordinary	–	100	Provision of network infrastructure solutions and services
Sys Solutions Technology Consulting Limited	Hong Kong	HK$10,000 ordinary	–	100	Provision of network infrastructure solutions and services
Sys Solutions GlobalSoft Limited	Hong Kong	HK$10,000 ordinary	–	100	Provision of network infrastructure solutions and services

19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation/ establishment and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
廣州軟迅網絡科技有限公司# (Sys Solutions (Guangzhou) Limited)*	People's Republic of China	RMB2,000,000	–	100	Under de-registration
China Enviro Energy Holdings Limited	Hong Kong	HK$1 ordinary	–	100	Inactive
Basic Corporation Limited	Hong Kong	HK$1 ordinary	–	100	Memberships holding
Sun Ray (China) Limited	Hong Kong	HK$1 ordinary	–	100	Vehicles holding

* The English names of the PRC subsidiaries refered to above are for identification purpose only

\# Wholly-owned foreign enterprises established in the PRC

TWE had 53 million outstanding warrants as at 31 December 2008. Upon the full conversion of all outstanding warrants of TWE, the Group's shareholding will be diluted to approximately 48.65% controlling interest of the enlarged capital of TWE. As the Group has power to appoint directors, TWE is still a subsidiary of the Company after full conversion of all outstanding warrants.

None of the subsidiaries had issued any debt securities during the period from 1 August 2007 to 31 December 2008 and at the end of the period.

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Cost of unlisted investments in jointly-controlled entities	1,131	2,371
Share of post-acquisition profits and reserves, net of dividends received	8,686	(914)
Less: Impairment losses recognised	–	(1,457)
	9,817	–

The dividend receivable from a jointly-controlled entity is unsecured, interest-free and repayable on demand.

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(CONTINUED)*

As at 31 December 2008, particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of Incorporation/ registration and operations	Percentage of ownership interest	Percentage of voting power	Percentage of profit sharing	Principal activities
Qian An Oil Development Co., Ltd ("乾安石油開發有限公司")	Corporate	People's Republic of China	50	50	50	Exploitation of petroleum resources activities and production of petroleum

As at 31 July 2007, the Group has interests in 杭洲軟均信息系統工程監理有限公司 ("Hangzhou JV"). Hangzhou JV is a sino-foreign equity joint enterprise established by Sys Solutions System Management Limited and a joint venturer in the PRC for a period of 20 years commencing from the date of issuance of its business licence of 10 October 2003.

The Group has discontinued recognition of its share of losses of Hanzhou JV. The amounts of unrecognised share of Hangzhou JV, both for the period and cumulatively, are as follows:

	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Unrecognised share of loss of Hangzhou JV for the period/year	12	82
Accumulated unrecognised share of losses of Hangzhou JV	1,145	1,133

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(CONTINUED)*

The summarised financial information in respect of the Group's interest in the jointly-controlled entities which are accounted for using the equity method is set out below:

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Non-current assets	**70,356**	274
Current assets	**14,617**	3,420
Current liabilities	**(60,510)**	(780)
Non-current liabilities	**(4,828)**	–

	Period From 1 August 2007 to 31 December 2008	Year ended 31 July 2007
Income	**72,025**	5
Expenses	**(62,516)**	(168)

21. AVAILABLE-FOR-SALE INVESTMENTS

The Group's available-for-sale investments comprise:

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Listed securities, reporting as non-current assets:		
– Equity securities – listed overseas	**659**	–

The equity securities represented approximately 3% interests in Petromin Resources Limited ("Petromin") listed at TSX Venture Exchange. The senior management personnel of the Company and Petromin are in common. Mr. Chan Wing Him, Kenny and Dr. Arthur Ross Gorrell, executive Directors, have beneficial interests in Petromin.

As at the balance sheet date, available-for-sale investments are measured at fair value.

22. EXPLORATION AND EVALUATION ASSETS

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Carrying value		
As at the beginning of period/year	–	–
Arising on acquisition of a subsidiary (Note 33)	17,236	–
Additions	18,742	–
Exchange realignment	(1,556)	–
As at end of period/year	34,422	–

23. TRADE RECEIVABLES

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Trade receivables	94	206
Less: Allowance for doubtful debts	(8)	(8)
As at end of period/year	86	198

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

An aging analysis of the trade receivables of the Group (net of impairment losses for trade receivables) as at the balance sheet date, based on invoice date, is as follows:

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Within 30 days	29	139
Between 31 – 60 days	11	59
Over 60 days	46	–
	86	198

23. TRADE RECEIVABLES *(CONTINUED)*

The movements in provision for impairment of trade receivables are as follows:

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
As at the beginning and end of the period/year	**8**	8

Before accepting any new customer, the Group uses a system to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed on a regular basis. Minimal amount of the trade receivables that are neither past due nor impaired have the best credit under the credit system used by the Group.

Receivables that were neither past due nor impaired relate to a range of customers for whom there was no recent history of default.

As at 31 December 2008, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$46,000 (31 July 2007: HK$Nil) which are past due at the reporting date and aged over 60 days for which the Group has not provided for impairment loss. The Group did not hold any collateral over these balances.

Receivables that were past due but not impaired related to independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Deposits, prepayments and other receivables	**4,895**	94,546

On 10 April 2007, the Company entered into an exclusivity agreement (the "Exclusivity Agreement") with Global Richland Investment Limited ("Global Richland"), an independent third party, pursuant to which Global Richland had agreed to, among others, grant an exclusivity period of six months, to the Company for conducting due diligence on Allied Resources Limited ("Allied Resources"), a company incorporated in Hong Kong with limited liability, with a view to acquiring the entire issued share capital of Allied Resources (the "Proposed Acquisition"). On 19 July 2007, the Company entered into a supplemental deed to the Exclusivity Agreement with Global Richland (the "Supplemental Deed"), pursuant to which Global Richland had agreed to, among others, further extend the exclusivity period up to 31 December 2007 (the "Extended Exclusivity Period"). Up to 31 July 2007, an aggregate of HK$93.6 million refundable deposits had been paid by the Company to Global Richland and included in deposits, prepayments and other receivables.

The acquisition was completed on 29 February 2008. Accordingly, the refundable deposits are included as part of the purchase consideration. Details of the acquisition are set out in Note 33.

25. BANK BALANCES AND CASH

Bank balances earn interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

As at 31 December 2008, the bank balances and cash of the Group denominated in RMB amounted to approximately HK$1,423,000 (31 July 2007: approximately HK$52,000). RMB is not freely convertible into other currencies. However, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. TRADE PAYABLES

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

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Within 30 days	**9,873**	51
Between 31 – 60 days	**856**	–
Over 60 days	**1,522**	–
	12,251	51

27. AMOUNT DUE TO DIRECTOR

The amount due is unsecured, interest-free and repayable on demand.

28. DEFERRED TAXATION

The following are major deferred tax liabilities recognised and movements thereon during the seventeen-month period ended 31 December 2008 (2007: HK$Nil):

	Intangible assets HK$'000
As at 1 August 2006 and 2007	–
Arising on acquisition of subsidiaries (Note 33)	215,915
Credited to consolidated income statement (Note 13)	(1,679)
Exchange realignment	(9,300)
As at 31 December 2008	204,936

29. SHARE CAPITAL

	Number of ordinary shares		Nominal value	
	As at 31 December 2008 '000	As at 31 July 2007 '000	As at 31 December 2008 '000	As at 31 July 2007 '000
Authorised:				
As at beginning of period/year Ordinary shares of HK$0.005 each for 2008 and HK$0.01 each for 2007	10,000,000	5,000,000	50,000	50,000
Share subdivision on 29 August 2007 (i)	10,000,000	5,000,000	–	–
As at end of period/year Ordinary share of HK$0.0025 each for 2008 and HK$0.005 each for 2007	20,000,000	10,000,000	50,000	50,000
Issued and fully paid:				
As at beginning of period/year Ordinary shares of HK$0.005 each for 2008 and HK$0.01 each for 2007	1,074,546	396,180	5,373	3,962
Share placing on 26 February 2007 (iv)	–	24,000	–	240
Issue of new shares upon exercise of share options on 6 August 2007	14,152	–	70	–
	1,088,698	420,180	5,443	4,202
Share subdivision (i)	1,088,698	420,180	–	–
Share placing (iv)	–	229,086	–	1,145
Issue of shares upon exercise of share option (ii)	49,485	5,100	124	26
Issue of shares for aquisition of a subsidiary (iii)	110,000	–	275	–
As at end of period/year Ordinary share of HK$0.0025 each for 2008 and HK$0.005 each for 2007	2,336,881	1,074,546	5,842	5,373

Notes:

i. An ordinary resolution proposed at the Extraordinary General Meeting held on 17 April 2007 to approve the subdivision of every issued and unissued ordinary shares of par value of HK$0.01 each in the share capital of the Company into two subdivided ordinary shares of par value of HK$0.005 each was duly passed by the shareholders. The share subdivision became effective on 18 April 2007.

   An ordinary resolution proposed at the Extraordinary General Meeting held on 28 August 2007 to approve the subdivision of every issued and unissued ordinary shares of par value of HK$0.005 each in the share capital of the Company into two subdivided ordinary shares of par value of HK$0.0025 each was duly passed by the shareholders. The share subdivision became effective on 29 August 2007.

ii. During the year ended 31 July 2007, the Company allotted and issued 5,100,000 shares of HK$0.127 per share, respectively as a result of the exercise of share options.

   During the seventeen-month period ended 31 December 2008, the Company allotted and issued 68,388,800, 600,000, 8,600,000 and 200,000 shares of HK$0.0025 each for cash at the exercise price of HK$0.0635, HK$0.5790, HK$0.1125 and HK$2.4400 per share, respectively as a result of the exercise of share options.

iii. The Company issued 110,000,000 ordinary shares (the "Consideration Shares") on 29 February 2008 to the sole shareholder of Allied Resources as part of the purchase consideration for the entire issued shares of Allied Resources. The Consideration Shares rank pari passu with the existing shares in all respects except that the Consideration Shares are restricted to be transferred, sold, lent, charged, and mortgaged within three months from 29 February 2008. The fair value of the Consideration Shares, determined using the published closing price on 29 February 2008, amounted to approximately HK$110,000,000 at HK$1.0 each.

iv. Completion of the placing took place on 26 February 2007 in accordance with the terms of the placing agreement, where a total of 24,000,000 new shares were placed out at the placing price of HK$0.40 per share, resulting in the issue of 24,000,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$9,600,000.

   Completion of the placing took place on 28 May 2007 in accordance with the terms of the placing agreement, as amended by the supplemental deed, where a total of 49,995,000 new shares were placed out at the placing price of HK$0.80 per share, resulting in the issue of 49,995,000 shares of HK$0.005 each for a total cash consideration, before expenses, of HK$39,996,000.

   Completion of the placing took place on 16 July 2007, where a total of 179,091,000 new shares were placed out at the placing price of HK$2.55 per share, resulting in the issue of 179,091,000 shares of HK$0.005 each for a total cash consideration, before expenses, of HK$456,682,050.

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

30. SHARE OPTION SCHEME

(i) On 25 January 2003, a share option scheme (the "Pre-Scheme") was approved pursuant to written resolutions of the Company. The purpose of the Pre-Scheme was to recognise the contribution of certain employees of the Group to its growth. The Company had granted pre-IPO share options thereunder to two executive Directors and 18 employees to subscribe for a total of 30,168,000 shares, representing in aggregate of approximately 7.84% of the then issued share capital of the Company immediately following the completion of the placing and the capitalisation issue, at subscription prices ranging from HK$0.11 to HK$0.27 per share. No further options can be granted under the Pre- Scheme after the listing of the Company's shares on GEM. All these options granted may be exercised after the expiry of 12 months from 18 February 2003, the listing date, and in each case, not later than four years from the listing date. Each grantee has paid HK$1 to the Company as consideration for such grant. The movements under the Pre-Scheme during the year ended 31 July 2007 are as follow:

	Number of share options granted on 25 January 2003					
Category of participant	**As at 1 August 2006**	**Exercised during the year**	**Lapsed during the year**	**As at 31 July 2007**	**Exercise period**	**Exercise price per share**
						HK$
Employee of the Group	270,000	–	(270,000)	–	18/2/2004 to 17/2/2007	0.27

During the year ended 31 July 2007, 270,000 share options lapsed following the resignation of an employee. As at 31 July 2007, there was no outstanding share options under the Pre-Scheme.

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

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

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

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

30. SHARE OPTION SCHEME *(CONTINUED)*

(ii) *(Continued)*

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

The movements in the share options granted under the Share Option Scheme during the period from 1 August 2007 to 31 December 2008 are shown in the following table:

					Number of share options				
Name or category of participants	**Date of grant**	**Exercise period**	**Exercise price per share prior to the share subdivision** (HK$)	**Exercise price per share after adjusted the effect of the share subdivision** (HK$)	**As at 1 August 2007**	**Granted during the period**	**Lapsed during the period**	**Exercised during the period**	**As at 31 December 2008**
Executive directors:				(a)		(c)			
Mr. Chan Wing Him, Kenny	29/12/2006	29/12/2006 to 24/1/2013	0.127	0.064	15,847,200	–	–	–	15,847,200
	22/6/2007	22/6/2007 to 24/1/2013	2.730	1.365	2,000,000	–	–	–	2,000,000
	19/6/2008	19/6/2010 to 19/6/2018	–	0.232	–	500,000 (b)	–	–	500,000
Mr. Arthur Ross Gorrell (appointed as non-executive Director on 1 December 2007 and re-designated as executive Director on 2 June 2008)	29/10/2007	29/10/2007 to 24/1/2013	–	2.440	–	700,000	–	–	700,000
	19/6/2008	19/6/2010 to 19/6/2018	–	0.232	–	500,000 (b)	–	–	500,000
Mr. Chan Man Ching (resigned on 12 June 2008)	29/12/2006	29/12/2006 to 24/1/2013	0.127	0.064	15,847,200	–	–	(15,847,200)	–
	22/6/2007	22/6/2007 to 24/1/2013	2.730	1.365	2,000,000	–	(2,000,000)	–	–

30. SHARE OPTION SCHEME *(CONTINUED)*

(ii) *(Continued)*

Name or category of participants	Date of grant	Exercise period	Exercise price per share prior to the share subdivision (HK$)	Exercise price per share after adjusted the effect of the share subdivision (HK$)	Number of share options: As at 1 August 2007	Granted during the period	Lapsed during the period	Exercised during the period	As at 31 December 2008
Independent non-executive director:									
Mr. Poon Lai Yin Michael (resigned and re-designated as Chief Financial Officer on 8 July 2008)	19/6/2008	19/6/2010 to 19/6/2018	–	0.232	–	500,000(b)	–	–	500,000
					35,694,400	2,200,000	(2,000,000)	(15,847,200)	20,047,200
Key management personnel:									
Mr. Donald O Downing	19/6/2008	19/6/2010 to 19/6/2018	–	0.232	–	350,000 (b)	–	–	350,000
Mr. Ho Tak Yuen, Peter (resigned on 11 August 2008)	18/1/2007	18/1/2007 to 24/1/2013	0.127	0.064	15,847,200	–	–	(15,847,200)	–
	22/6/2007	22/6/2007 to 24/1/2013	2.730	1.365	2,000,000	–	(2,000,000)	–	–
					17,847,200	350,000	(2,000,000)	(15,847,200)	350,000
Other employees:									
In aggregate	18/1/2007	18/1/2007 to 24/1/2013	0.127	0.064	15,847,200	–	–	(15,847,200)	–
	26/4/2007	26/4/2007 to 24/1/2013	1.158	0.579	400,000	–	(40,000)	(200,000)	160,000
	19/6/2008	19/6/2010 to 19/6/2018	–	0.232	–	8,650,000 (b)	–	–	8,650,000
					16,247,200	8,650,000	(40,000)	(16,047,200)	8,810,000
Others:									
In aggregate	18/1/2007	18/1/2007 to 24/1/2013	0.127	0.064	21,847,200	–	–	(20,847,200)	1,000,000
	20/3/2007	20/3/2007 to 24/1/2013	0.225	0.113	24,840,000	–	–	(8,600,000)	16,240,000
	26/4/2007	26/4/2007 to 24/1/2013	1.158	0.579	1,400,000	–	–	(400,000)	1,000,000
	22/6/2007	22/6/2007 to 24/1/2013	2.730	1.365	14,500,000	–	–	–	14,500,000
	29/10/2007	29/10/2007 to 24/1/2013	–	2.440	–	23,700,000	–	(200,000)	23,500,000
	19/6/2008	19/6/2010 to 19/6/2018	–	0.232	–	500,000 (b)	–	–	500,000
					62,587,200	24,200,000	–	(30,047,200)	56,740,000
TOTAL					132,376,000	35,400,000	(4,040,000)	(77,788,800)	85,947,200
Weighted average exercise price					0.281	1.754	1.357	0.0790	1.020

30. SHARE OPTION SCHEME *(CONTINUED)*

(ii) *(Continued)*

The movements in the share options granted under the Share Option Scheme during the year ended 31 July 2007 are shown in the following table:

					Number of share options				
Name or category of participants	Date of grant	Exercise period	Exercise price per share prior to the share subdivision (HK$)	Exercise price per share after adjusted the effect of the share subdivision (HK$)	As at 1 August 2006	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 July 2007
Executive directors:				(a)					
Mr. Chan Wing Him, Kenny (appointed on 29 November 2006)	29/12/2006	29/12/2006 to 24/1/2013	0.127	0.064	–	15,847,200	–	–	15,847,200
	22/6/2007	22/6/2007 to 24/1/2013	2.730	1.365	–	2,000,000	–	–	2,000,000
Mr. Chan Man Ching (appointed on 29 November 2006)	29/12/2006	29/12/2006 to 24/1/2013	0.127	0.064	–	15,847,200	–	–	15,847,200
	22/6/2007	22/6/2007 to 24/1/2013	2.730	1.365	–	2,000,000	–	–	2,000,000
Key management personnel:									
Mr. Ho Tak Yuen, Peter	18/1/2007	18/1/2007 to 24/1/2013	0.127	0.064	–	15,847,200	–	–	15,847,200
	22/6/2007	22/6/2007 to 24/1/2013	2.730	1.365	–	2,000,000	–	–	2,000,000
					–	53,541,600	–	–	53,541,600
Other employees:									
In aggregate	18/1/2007	18/1/2007 to 24/1/2013	0.127	0.064	–	15,847,200	–	–	15,847,200
	26/4/2007	26/4/2007 to 24/1/2013	1.158	0.579	–	400,000	–	–	400,000
					–	16,247,200	–	–	16,247,200
Others:									
In aggregate	18/1/2007	18/1/2007 to 24/1/2013	0.127	0.064	–	32,047,200	–	(10,200,000)	21,847,200
	20/3/2007	20/3/2007 to 24/1/2013	0.225	0.113	–	24,840,000	–	–	24,840,000
	26/4/2007	26/4/2007 to 24/1/2013	1.158	0.579	–	1,400,000	–	–	1,400,000
	22/6/2007	22/6/2007 to 24/1/2013	2.730	1.365	–	14,500,000	–	–	14,500,000
					–	72,787,200	–	(10,200,000)	62,587,200
TOTAL					–	142,576,000	–	(10,200,000)	132,376,000
Weighted average exercise price					–	0.266	–	0.064	0.281

30. SHARE OPTION SCHEME *(CONTINUED)*

(ii) *(Continued)*

Notes:

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

(b) Regarding the share options granted on 19 June 2008, 50% of the share options shall be exercised in a period commencing two years from the date of grant and expiring on the tenth anniversary from the date of grant. The balance of 50% of the share options shall be exercised in a period commencing three years from the date of grant and expiring on the tenth anniversary from the date of grant.

(c) Share options for subscribing 35,400,000 shares of the Company were granted for a total consideration of HK$15 during the seventeen-month period. The aggregate fair value of options granted under the Share Option Scheme, measured at their respective date of grant, amounted to approximatley HK$32,868,000 was charged to consolidated income statement.

(d) The fair values of the share options granted during the period were derived from Binomial option pricing model by applying the following bases and assumptions:

Date of Grant	**Dividend Yield**	**Expected Volatility** (i)	**Risk-free rate** (ii)	**Price of the Company's shares at grant date of options** (iii)
				HK$ per share
29 October 2007	Nil	36.4%	3.86%	2.45
19 June 2008	Nil	47.8%	3.73%	0.23

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

(ii) the risk free rate has made reference to yield of HK Exchange Fund notes ("EFN") as at the grant date. In this valuation, the yield of 10-year EFN has been adopted in the estimation of risk free rate for the option.

(iii) the price of the Company's shares disclosed as at the date of grant of the share options is the closing price on the trading day immediately prior to the date of grant of the options, as adjusted to reflect the share subdivision on 29 August 2007.

(e) The fair value of the share options during the seventeen-month period ended 31 December 2008 has been arrived at on the basis of a valuation carried out on date of grant by Vigers.

(f) The values of the options are subject to the limitations of the Binomial option pricing model and a number of assumptions which are subjective and difficult to ascertain. Changes in the subjective input assumptions could materially affect the fair value estimate.

(g) The outstanding share options as at 31 December 2008 had a weighted average remaining contractual life of 4.76 years (31 July 2007: 5.49 years).

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

(i) As at 31 December 2008, the Company had 85,947,200 (31 July 2007: 132,376,000) share options outstanding under the Share Option Scheme, which represented approximately 3.67% (31 July 2007: 6.16%) of the Company's shares in issue at that date.

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

31. EMPLOYEE RETIREMENT BENEFIT SCHEME

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

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

The total cost charged to consolidated income statement of approximately HK$270,000 represents contributions payable to these scheme by the Group during the period from 1 August 2007 to 31 December 2008 (Year ended 31 July 2007: HK$200,000).

32. BALANCE SHEET INFORMATION OF THE COMPANY

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Non-current assets		
Plant and equipment	1,469	49
Investments in subsidiaries	293,831	–
Available-for-sale investments	659	–
	295,959	49
Current assets		
Amounts due from subsidiaries	102,837	–
Deposits, prepayments and other receivables	1,142	93,778
Bank balances and cash	117,393	394,695
	221,372	488,473
Current liabilities		
Accrued liabilities and other payables	12,065	5,640
Amount due to a subsidiary	10	78
	12,075	5,718
Net current assets	209,297	482,755
Net assets	505,256	482,804
Capital and reserves		
Share capital	5,842	5,373
Share premium and reserves (Note)	499,414	477,431
Total equity	505,256	482,804

Note:

	Share premium HK$'000	**Capital reserve** HK$'000	**Share option reserve** HK$'000	**Available-for-sale investments reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
As at 1 August 2006	29,686	871	–	–	(34,605)	(4,048)
Loss for the year and total expenses recognised for the year	–	–	–	–	(50,427)	(50,427)
Issue of new shares	504,893	–	–	–	–	504,893
Recognition of equity settled share-based payments	–	–	37,228	–	–	37,228
Exercise of share options	1,208	–	(586)	–	–	622
Share issue expenses	(10,837)	–	–	–	–	(10,837)
As at 31 July 2007 and 1 August 2008	524,950	871	36,642	–	(85,032)	477,431
Loss for the period	–	–	–	–	(123,639)	(123,639)
Loss on fair value changes of available–for–sale investments and total expenses recognised directly in equity	–	–	–	(2,922)	–	(2,922)
Total expenses recognised for the period	–	–	–	(2,922)	(123,639)	(126,561)
Issue of new shares	109,725	–	–	–	–	109,725
Recognition of equity settled share–based payments	–	–	32,868	–	–	32,868
Exercise of share options	11,428	–	(5,477)	–	–	5,951
Forfeiture of share options	–	–	(5,482)	–	5,482	–
As at 31 December 2008	**646,103**	**871**	**58,551**	**(2,922)**	**(203,189)**	**499,414**

33. BUSINESS COMBINATIONS

Acquisition of Allied Resources

On 29 February 2008, the Group acquired 100% of the issued share capital of Allied Resources at a consideration of approximately HK$211,236,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising from the acquisition was approximately HK$289,831,000.

Through the acquisition of Allied Resources, the Group obtained 50% equity interests in Qian An, which is engaged in the exploitation of petroleum resources activities and production of petroleum.

The Directors are of the opinion that the acquiree's assets and liabilities approximate their fair values. The net liabitities acquired in the transaction and goodwill arising are as follows:

	HK$'000
Plant and equipment (Note 16)	25
Interest in jointly-controlled entities	8,570
Other receivables	12,907
Dividend receivables from a jointly-controlled entity	10,447
Bank balances and cash	119
Amount due to the holding company	(82,594)
Accrued liabilities and other payables	(28,069)
Goodwill (Note 18)	289,831
Total consideration – shown as below	211,236
Total consideration satisfied by:	
Cash paid	178,000
Fair value of shares issued (Note 29)	110,000
Shareholder's loan	(82,594)
Direct expenses relating to the acquisition	5,830
	211,236
Net cash outflow arising on acquisition:	
Cash paid	178,000
Bank balances and cash acquired	(119)
Direct expenses relating to the acquisitions	5,830
	183,711
Less: deposit paid – included in deposits, prepayments and other receivables	(93,600)
	90,111

33. BUSINESS COMBINATIONS *(CONTINUED)*

Acquisition of Allied Resources *(Continued)*

Allied Resources and its subsidiary contributed loss of approximately HK$11,788,000 to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 August 2007, total group revenue for the period would have been approximately HK$2,213,000, and profit for the period would have been decreased by approximately HK$28,040,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 August 2007, nor is it intended to be a projection of future results.

Acquisition of Chavis

On 13 October 2008, the Group acquired 100% of the issued share capital of Chavis at a consideration of approximately HK$17,597,000. This acquisition has been accounted for using the purchase method. The amount of discount on acquisition was approximately HK$367,973,000.

Through the acquisition of Chavis, the Group obtained 63.91% controlling interest in TWE, which is engaged in the exploration and development of CBM in Xinjiang, the PRC.

The Directors are of the opinion that the acquiree's assets and liabilities approximate their fair values. The net assets acquired in the transaction and the discount of acquisition arising are as follows:

	HK$'000
Intangible assets – PSC (Note 17)	863,659
Exploration and evaluation assets (Note 22)	17,236
Other receivables	38
Bank balances and cash	12,577
Trade payables	(1,569)
Accrued liabilities and other payables	(46,451)
Deferred tax liabilities (Note 28)	(215,915)
Minority interest	(244,005)
Discount on acquisition	(367,973)
Total consideration – shown as below	17,597
Total consideration satisfied by:	
Cash paid	8,041
Deferred consideration#	8,424
Direct expenses relating to the acquisition	1,132
	17,597
Net cash inflow arising on acquisition:	
Cash paid	8,041
Bank balances and cash acquired	(12,577)
Direct expenses relating to the acquisition	1,132
	(3,404)

Pursuant to the sales and purchase agreement, part of the consideration will be settled by way of issue of 93,600,000 new shares at HK$0.25 each. As at 31 December 2008, the consideration shares were not issued yet. The fair value of the shares is determined using the published price of HK$0.09 available at the date of the acquisition, amounted to approximately HK$8,424,000. The deferred consideration is included in the accrued liabilities and other payables in consolidated balance sheet.

33. BUSINESS COMBINATIONS *(CONTINUED)*

Acquisition of Chavis *(Continued)*

Chavis contributed profit of approximately HK$358,298,000 to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 August 2007, the group revenue for the period would have been approximately HK$2,213,000, and profit for the period would have been decreased by approximately HK$33,517,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 August 2007, nor is it intended to be a projection of future results.

34. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group entered into the following material related party transactions during the period/year presented.

	From 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Petromin		
Consultancy Fees paid to Petromin (note (iii))	**194**	–
Pushang Management Services Limited (note (iv))		
Network infrastructure construction solutions income	**–**	9
Network infrastructure maintenance and reinforcement services income	**–**	163
Lam Chi Shing, former chairman and executive Director		
Cash advance from a Director	**–**	1,800
Waiver of amount due to a Director	**–**	4,987
Chan Wing Him, Kenny, executive Director		
Cash advance from a Director	**80**	1,480

(i) Master technical service agreement with Petromin

The Company signed a master technical services agreement ("Master Agreement") with Petromin on 10 October 2007 for a term of two years commencing from the date of the Master Agreement. Petromin is a related company in which Mr. Chan Wing Him, Kenny, and Dr. Arthur Ross Gorrell, the executive Directors, have a beneficial interests.

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

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

During the period from 1 August 2007 to 31 December 2008, there were no Project Services provided by Petromin.

34. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) *(Continued)*

(ii) Co-operative agreement with Petromin and CUCBM

On 25 January 2008, the Company entered into a co-operative agreement (the "Co-operative Agreement") with Petromin and CUCBM pursuant to which the parties thereto entered into a co-operation ("Co-operation") under the PRC laws. The purpose for the Co-operation is to jointly evaluate and implement deep un-mineable coal carbon dioxide sequestration and enhanced CBM production project in the PRC.

The Co-operation commenced from the date of the Co-operative Agreement and is effective for five years or until terminated as provided in the Co-operative Agreement. The first phase lasts for two years and the second phase lasts for three years or longer as required to demonstrate the project.

Each of CUCBM, Petromin and the Company is entitled to 60%, 20% and 20% of the income, intellectual property and/ or benefits derivied from the Co-operation, respectively.

Each party intends to contribute to the capital of the Co-operation, in cash or property in agreed upon value (Note 36).

(iii) Professional services and management agreement with Petromin

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

TWE had agreed to pay Petromin a fee for services rendered plus any associated disbursements on a monthly basis. The initial fee for services is approximately HK$64,000 per month. The fee may be adjusted by mutual consent from time to time.

After the acquisition of TWE by the Group on 13 October 2008 and up to 31 December 2008, TWE paid approximately HK$194,000 to Petromin for the professional services.

The Professional Service Agreement expired on 31 December 2008.

(iv) The former chairman of the Company and a former executive Director, Mr. Lam Chi Shing, had beneficial interests in Pushang Management Services Limited.

(v) The Company held approximately 3% interests in Petromin. The senior management personnel of the Company and Petromin are in common. Mr. Chan Wing Him, Kenny and Dr. Arthur Ross Gorrell, executive Directors, have beneficial interest in Petromin.

(b) Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the Directors as disclosed in Note 11 and the highest paid employees as disclosed in Note 12, was as follows:

	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Short-term employee benefits	**26,140**	4,316
Retirement benefit scheme contributions	**46**	26
Share-based payments	**1,230**	10,860
	27,416	15,202

35. OPERATING LEASES COMMITMENT

The Group as lessee

	Period from 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000
Minimum leases payments under operating leases during the period/year in respect of rented premises	1,902	684

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

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Within one year	2,077	505
After one year but within five years	1,743	–
	3,820	505

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for an average term ranging from one to three years.

36. CAPITAL COMMITMENT

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000
Other commitments contracted for but not provided in the consolidated financial statements in respect of:		
– PSC (i)	20,280	–
– Co-operative Agreement (ii)	1,868	–
	22,148	–

Note:

(i) The amount of approximately HK$20,280,000 (equivalent to approximately US$2,600,000) represents the minimum work obligations, as required by the PSC to be incurred before the end of February 2011.

(ii) Pursuant to the Co-operation Agreement, the Company had agreed to contribute approximately RMB3,460,000 (approximately HK$3,737,000) jointly with Petromin for the engineering design and study, simulation technology and analysis, materials and salaries etc in the first phase. An additional RMB15,000,000 or more would be funded in the second phase. The capital contribution of each party in the second phase would be further determined.

37. CONTINGENT LIABILITIES

On 29 February 2008, the Group acquired 100% of the issued share capital of Allied Resources. Save for the amount due to the holding company of approximately HK$82,594,000, the accrued liabilities and other payables of approximately HK$28,069,000, the vendor, Global Richland, has agreed to indemnify the Group in respect of, among other matters, any losses or expenses incurred by the Group in respect of any other liabilities, tax provision, contingent liabilities and commitments of not exceeding in aggregate of HK$365.88 million and any liability incurred by the Group relating to tax and/or relief on or before the six anniversary of the date of completion, i.e. 28 February 2014.

On 13 October 2008, the Group acquired 100% of the issued share capital of Chavis. Save for the accrued liabilities and other payables disclosed in the unaudited consolidated financial statements of Chavis and its subsidiary as at 31 July 2008, the vendor, Ms. Cheng Miu Fong, has agreed to indemnify the Group in respect of, among other matters, any losses or expenses incurred by the Group in respect of any other liabilities, tax provision, contingent liabilities and commitments of not exceeding in aggregate of US$4.031 million and any liability incurred by the Group relating to tax and/or relief on or before the six anniversary of the date of completion, i.e. 12 October 2014.

38. MAJOR NON-CASH TRANSACTIONS

For the period from 1 August 2007 to 31 December 2008, the major non-cash transactions are as follows:

(i) The acquisition of Allied Resources has been partially satisfied by (1) the refundable deposits of HK$93,600,000 which have been paid by the Company to Global Richland and included in deposits, prepayments and other receivables as at 31 July 2007 and issue of 110,000,000 new shares at a published price of HK$1 each.

(ii) The acquisition of Chavis has been partially satisfied by an issue of 93,600,000 new shares at a published price of HK$0.09 each.

During the year ended 31 July 2007, the Group had no major non-cash transactions.

39. EVENTS AFTER BALANCE SHEET DATE

On 9 February 2009, Rich Concept Technology Limited, a wholly-owned subsidiary of the Company, and Ms. Cheng Miu Fong signed a supplemental deed (the "Deed") to the conditional sale and purchase agreement dated 17 September 2008 regarding the acquisition of Chavis.

Pursuant to the Deed, the allotment date of the consideration shares of 93,600,000 is postponed to on or before 31 December 2009 or such other date as is agreed in writing by the parties and the lock-up period of the consideration shares is cancelled.

Subsequent to the balance sheet date, 16,666,667 warrants of TWE have been exercised. As a result, the Company's controlling interest in TWE has been diluted from approximately 63.91% to approximately 58.17%.

FIVE YEARS
FINANCIAL STATEMENT SUMMARY

The following is a summary of the published consolidated income statement and balance sheets of the Group:

CONSOLIDATED INCOME STATEMENT

	Period From 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Revenue	**2,213**	3,374	6,988	22,514	15,881
Cost of sales	**(1,818)**	(2,865)	(6,600)	(20,239)	(13,668)
Gross profit	**395**	509	388	2,275	2,212
Other operating income	**6,833**	6,151	74	105	96
Discount on acquisition	**367,973**	–	–	–	–
Impairment loss of a jointly-controlled entity	**–**	–	–	(1,458)	–
Impairment loss of goodwill	**(199,380)**	–	–	–	–
Share-based payments	**(32,868)**	(37,228)	–	–	–
Administrative and operating expenses	**(133,233)**	(15,406)	(8,248)	(13,999)	(14,038)
Share of results of jointly-controlled entities	**4,754**	–	–	(478)	(436)
Operating profit	**14,474**	(45,974)	(7,786)	(13,077)	(11,730)
Finance costs	**–**	–	–	(64)	–
Profit/(loss) before taxation	**14,474**	(45,974)	(7,786)	(13,619)	(12,165)
Income tax	**1,679**	–	–	–	–
Profit/(loss) for the period/year	**16,153**	(45,974)	(7,786)	(13,619)	(12,165)
Minority interests	**(2,193)**	–	–	–	–
Profit/(loss) attributable to equity holders of the Company	**18,349**	(45,974)	(7,786)	(13,619)	(12,165)

CONSOLIDATED BALANCE SHEET

	As at 31 December 2008 HK$'000	As at 31 July 2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000
Total assets	**1,115,076**	490,383	3,048	11,277	22,319
Total liabilities	**(252,874)**	(7,237)	(7,212)	(7,598)	(6,268)
Total assets less liabilities	**862,202**	483,146	(4,164)	3,679	16,051
Minority interests	**231,302**	–	–	–	–
Net assets/(liabilities)	**862,202**	483,146	(4,164)	3,679	16,051