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)

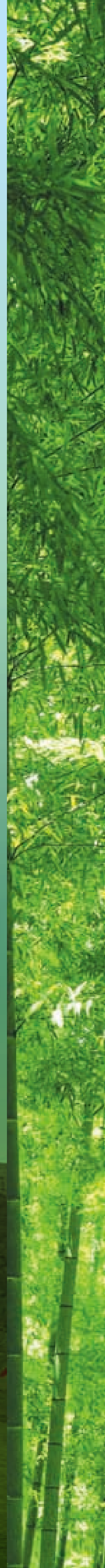
Annual Report 2009

Green Energy
Changing The World

Looking ahead, the Group's business focus will be on unconventional natural gas exploration and development, piloting ECBM production using CO_2 injection in order to take a further step in combating climate change, while maintaining strategic operations on conventional petroleum production.

Green Energy

TECHNOLOGIES
FOR A LOW CARBON ECONOMY



Q&A

Why are GHG harmful?

The United States Environmental Protection Agency has ruled that six greenhouse gases, including carbon dioxide, are harmful to the health of humans. Greenhouse gases (GHG) have, among other things, the impacts of increased drought, more heavy downpours and flooding, more frequent and intense heat waves and wildfires, greater sea level rise, more intense storms, and are harmful to water resources, agriculture, wildlife and ecosystems.

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 mining. 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.

CBM

CMM

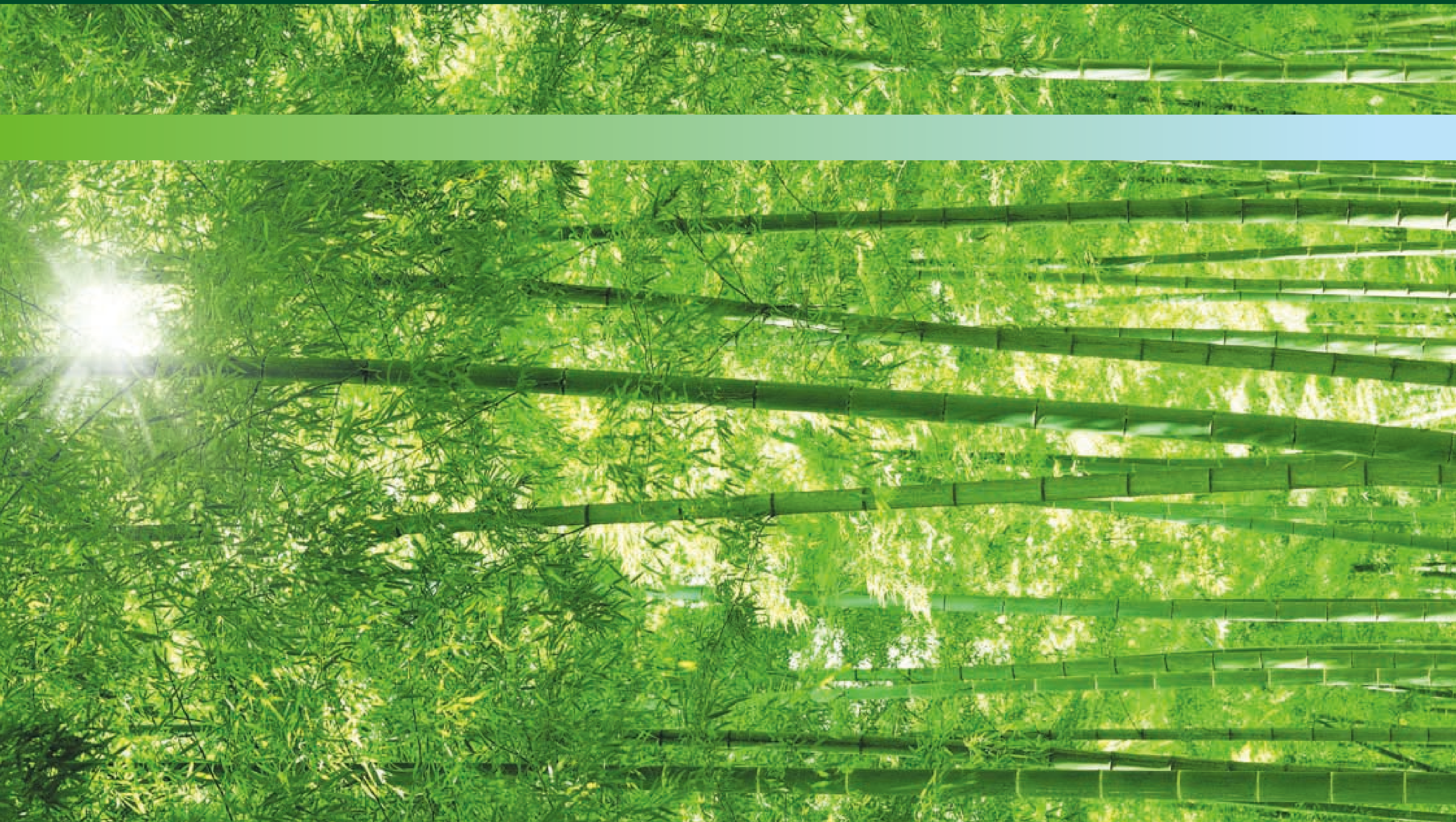
CO_2

EOR

CO_2

CCS

ECBM



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

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Grand Cayman KY1-1111
Cayman Islands

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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

PricewaterhouseCoopers

Principal Bankers

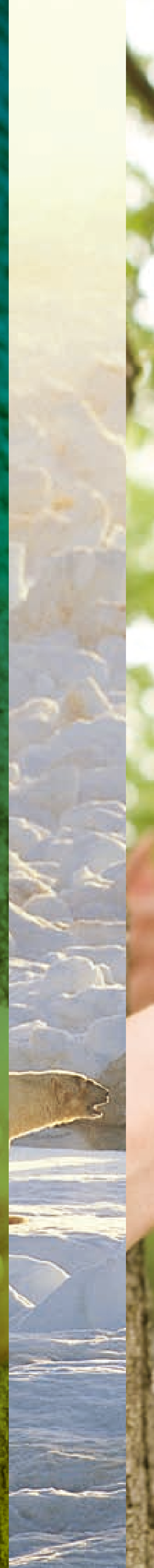
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

Company Website

www.enviro-energy.com.hk

Environmental Technology

Carbon capture and storage (CCS) is one possible approach for reducing CO_2 levels in the atmosphere. It addresses CO_2 emissions generated by human activities – primarily the combustion of fossil fuels in power generation. CCS makes use of different technologies to collect and concentrate CO_2, transport it to an appropriate location, and store it away from the atmosphere for a long period of time. The best targets for implementing carbon capture are large stationary sources of CO_2 emissions that are not too distant from an appropriate storage site.



Green Energy

A CLEAN ENVIRONMENT FOR THE NEXT GENERATION

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present to you the results of Enviro Energy for the year ended 31 December 2009.

As I reflect on the year 2009, I believe it will be remembered as one of the most challenging periods for international business as a whole and at the same time be seen as one of the most interesting and productive years for our Group highlighted by a significant unconventional natural gas discovery, progress at our enhanced coalbed methane ("**ECBM**") production pilot and continued petroleum production. The global economy certainly had to come through a period of recovery after the shocks of 2008, but recover it did and as we enter the new year I see signs that recovery, especially in the energy sector, is sustained. Much of our current business is centered in the People's Republic of China ("**PRC**" or "**China**"), and economic growth there is once again back to being robust and world-leading.

Our Group is in the energy supply business using both primary and enhanced methods and is currently focused on upstream hydrocarbons. The focus on enhanced hydrocarbon production is combined with a corporate objective of reducing the environmental impact of hydrocarbon use and we have targeted projects that have the potential for sequestration and storage of carbon dioxide ("**CO_2**").

Our Group's key business segments in conventional petroleum production, unconventional natural gas exploration and development, and enhanced hydrocarbon production combined with carbon management all advanced or maintained their status during the year. The fact that our teams were able to achieve such results under the prevailing dynamic circumstances is outstanding and a reflection of the quality of our Group's assets and our people.

The dynamics of energy supply are no more clearly illustrated than by the rapid advancement of unconventional natural gas supply, particularly shale gas supply, in North America. The successful application of new production technologies on a large scale has led to a shift in the gas supply/demand balance in North America which may ultimately affect international supply patterns in coming years. The new production technologies are transferable and therefore open possibilities in other continents and countries, including China where shale gas potential is referenced as approximating 26,000 billion cubic metres. I consider our Group to be an early mover in the far west of China in this highly prospective segment.

Looking ahead, the Group's business focus will remain on upstream hydrocarbon exploration and production emphasising both conventional and unconventional resources and primary and enhanced production methods. The Group will continue to look for opportunities to use carbon-reducing techniques to enhance hydrocarbon production, reflecting our strategic objectives of superior value creation and reduced environmental impact.

The strategic significance of the changes in gas supply in North America is rooted in the fact that new gas supplies have been developed domestically where the gas market exists. Similarly the strategic significance of our Group's position within the emerging domestic gas market of China will, due to the relative ease of deliverability and shorter project lead times, outshine longer term developments relating to potential liquefied natural gas imports into that country. Our Group's China unconventional natural gas project has a production sharing contract in place with exploration and testing work well advanced. The path to future production, profitability and value creation is shorter and more direct for such projects.

The year past was characterised by a lack of international agreement on formal next steps to combat global climate change as the results of the international negotiations in Copenhagen were inconclusive. Against the backdrop of the failed negotiations, public debate about energy policy, energy security and climate change continued unabated however. The economic recovery in developed countries coupled with continuing population and industrial growth in developing countries such as China and India continue to place enormous upward pressure on energy consumption, threatening energy supply while simultaneously pressuring and threatening our environment. These forces which I call the twin threats, will not ebb in the foreseeable future and require integrated responses.

The pressure from the twin threats while challenging, presents an opportunity, measured on a risk-adjusted and total return basis, for investors with the right mix of projects. Looking ahead, I expect the regulatory environments in key countries to continue to evolve and favour energy corporations which act positively to meet the twin threats. I also foresee more institutional investors considering the potential impact of these issues on their long term portfolios.

Enormous investments in the world's energy infrastructure will be required in order to address all the issues. The International Energy Agency recently noted that governments must take the lead by providing direct financing or financial incentives for carbon capture and storage ("**CCS**") demonstration projects and G8 countries have announced that 20 large-scale CCS projects must be committed by 2010 at a cost of US$30 to US$50 billion.

For our Group, I see great investment opportunities in energy supply projects while developing and commercialising clean energy technologies in the hydrocarbon segment. The implications of the current global situation are clear. New technologies are required as soon as possible yet development of CCS and significant deployment of this technology can take place only through a series of large-scale targeted demonstration projects over the coming decade. These demonstration projects are probably best delivered by industrial concerns in the power, oil and gas sectors responding to clear and unambiguous market signals and incentive packages created by governments. For our part we will be piloting ECBM production using CO_2 injection in the coming year and our Group is one of the very few in the world acting on its corporate commitment to CCS in such a manner.

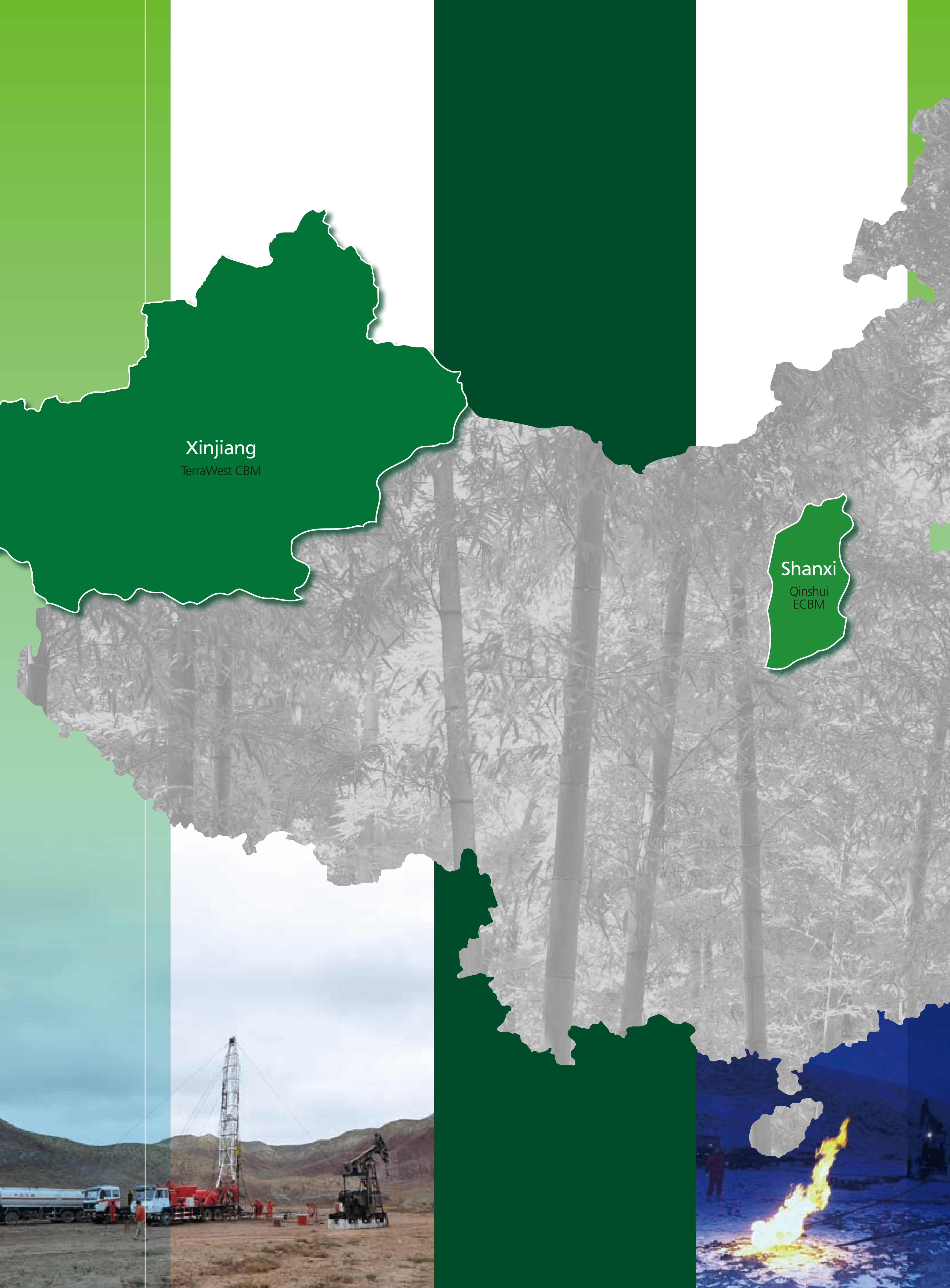
With strong demand growth, large capital investments supported long-term by capital markets and governments, energy corporations with the appropriate foresight will create exceptional value for shareholders. Our Group is among such corporations and our long-term strategies for lower-carbon investment projects form the basis for market leadership.

I remain confident in the direction we have charted, under the leadership of a world-class management team supported by the finest energy experts, engineers and financial and legal professionals. Pursuing an integrated set of solutions is vital to resolving the complex energy problems of the world and by being selective in our project investments, our Group will become a leader in energy supply while providing superior returns to shareholders.

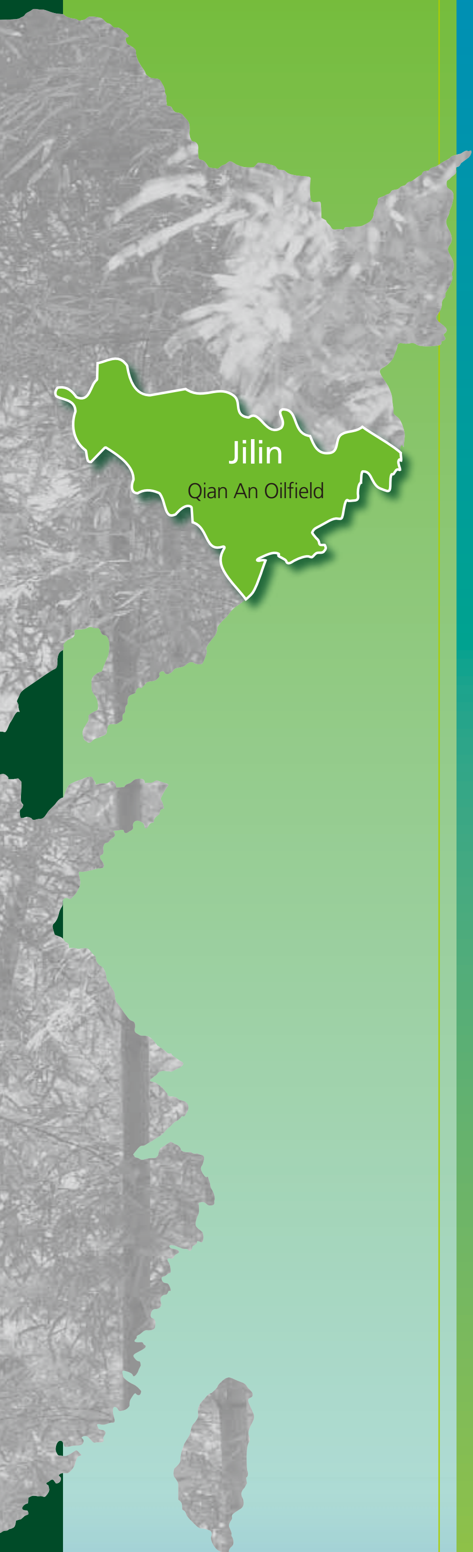
On behalf of the board of Directors ("**Board**"), I would like to take this opportunity to express my sincere appreciation to our valued shareholders and business associates for their encouraging support, and to our team for their remarkable contributions to the rapid development of our Group.

CHAN Wing Him Kenny
Chairman and CEO

Hong Kong, 19 March 2010



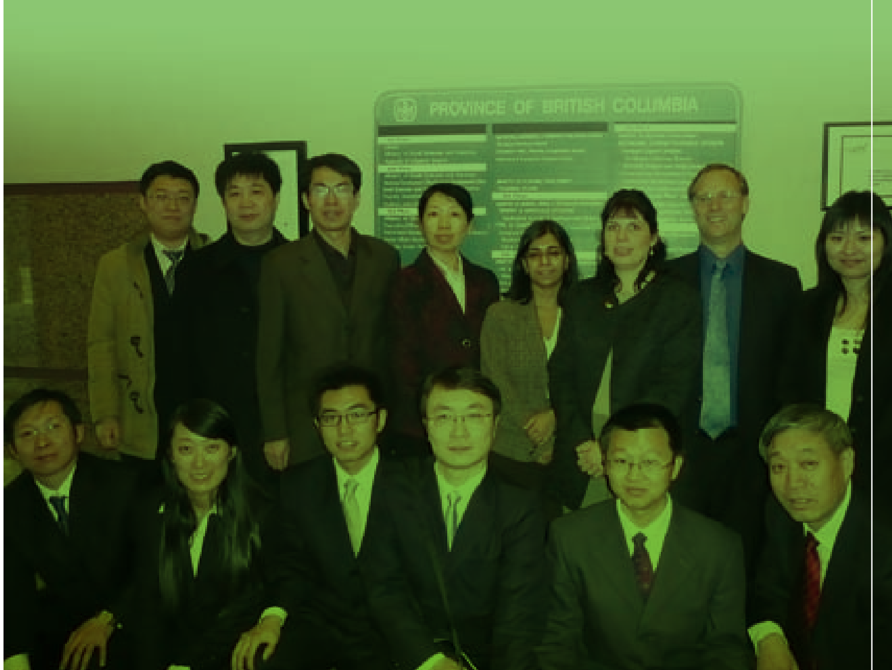
Xinjiang
TerraWest CBM
Shanxi
Qinshui
ECBM



Green Energy

IS OUR

FUTURE



MANAGEMENT DISCUSSION AND ANALYSIS

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

BUSINESS REVIEW

Conventional crude oil business

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

During 2009, the crude oil price in the PRC increased from approximately US$40 per barrel in the beginning of the year to a level ranging between approximately US$60 to US$70 per barrel in the last quarter of the year. PetroChina, being the operator of the two oilfields of Qian An, had increased the crude oil production levels from an average monthly production of approximately 5,000 barrels for the first quarter of the year to an average monthly production of approximately 11,000 barrels for the last quarter of the year.

Unconventional natural gas business

As at 31 December 2009, the Company held approximately 61.07% of the current issued common shares and preferred shares in the capital of TerraWest Energy Corp. ("**TWE**"), or approximately 65.48% of the issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis, respectively. TWE and China United Coalbed Methane Corporation Limited ("**CUCBM**") hold an interest of 47% and 53%, respectively, in a production sharing contract dated 30 December 2005 ("**PSC**"), which is located in Xinjiang Uygur Autonomous Region ("**Xinjiang**") in the far west of the PRC. The administration of the PSC was recently transferred to PetroChina Coalbed Methane Company Ltd. Under the terms of the PSC, TWE has the right to explore for, develop, produce and sell coalbed methane ("**CBM**") or liquid hydrocarbons extracted from CBM. CBM is defined in the PSC as gas stored in certain named geological formations of Jurassic age to a depth of 1,500 metres. The PSC has a term of 30 years with a production period of up to 20 years and an initial exploration period of five years.

During 2009, TWE completed geological mapping and reconnaissance of selected parts of the PSC and then initiated exploration drilling at three locations. Two of the exploration wells were intended to core entire sections of the prospective Jurassic Badaowan ("**J1B**") formation, and one well was intended to core and sample the Jurassic Xishanyao ("**J2X**") for further analysis. All three wells were completed as planned and samples are currently being analysed to determine gas content of the coal seams and surrounding rocks. All the wells were logged by geophysical instruments.

TWE also completed a gas flow test at well LHG 08-01 as planned. TWE's drilling engineer completed the well workover plan and assembled various local contractors to provide the field services. The gas flow test was successful and the well produced water and natural gas from the open hole through the coal seam. No artificial stimulation of any kind was required and produced gas was flared. TWE initiated engineering for well LHG 08-03 which will result in completion designs for sections of the target formations. The designs will serve as templates for the pilot production wells planned for 2010.

During the year, TWE received favourable results of laboratory analysis of J1B samples taken from the drill cuttings produced while drilling well LHG 08-03 during 2008. The samples were first allowed to desorb gas in the lab and then further analysed for Total Organic Carbon ("**TOC**") content and mineral composition which are key characteristics of prospective natural-gas bearing rocks. Results of the laboratory tests indicate TOC in J1B samples ranging from 0.9% to 11% with five of the samples ranging from 4.30% to 11.03%, while the mean TOC level in samples is 4.47%, which are considered to be very positive analysis results.

Environmental technologies

The Deep Un-mineable Coal CO_2 Sequestration and ECBM Production Project ("**JV Project**") operated under the cooperative joint venture agreement dated 25 January 2008 ("**JV Agreement**") between the Company, CUCBM and Petromin Resources Ltd. ("**Petromin**") continued to move ahead smoothly during 2009. The JV Project is a single-well pilot project that involves injecting CO_2 into target coal seams to test the CO_2 sequestration and storage capacity of the coal seams and then testing ECBM production. Pursuant to the JV Agreement, CUCBM, as operator, holds 60% participating interest in the JV Project, while the Company and Petromin each holds a 20% participating interest. The JV Project is located in CUCBM's Shizhuang North block in the Qinshui Basin of Shanxi Province, the PRC. The Qinshui Basin is one of the more prolific CBM producing regions in the PRC and the coal seams in the basin are prospective for ECBM production.

In November 2009, CUCBM initiated well operations at the JV Project site, which has been enlarged to 5 square kilometers around the pilot well SX-001. The three participating companies have begun discussions relating to a potentially larger area for Phase Two of the JV Project. Well SX-001 has begun de-watering in preparation for the injection of CO_2 into the target coal seams. The current phase of operations will provide baseline data on water and CBM production from the target coal seams no. 3 (approximately 5 metres thick) and no. 15 (approximately 6.6 metres thick). This work will lead into the CO_2 injection phase which is planned for late first quarter or early second quarter of 2010. The Company and Petromin are jointly responsible for providing certain specialised services and equipment to the JV Project. Alberta Research Council of Canada, the Group's technical partner, provides the expertise on behalf of the Company and Petromin including the well design which forms the basis for the CO_2 injection and subsequent operation of the well.

In December 2009, the Prime Minister of Canada announced Canadian government support for the JV Project in the form of C$500,000 matching funds contribution. The funds are provided under the auspices of Canada's participation in the Asia Pacific Partnership, a group of six countries acting in collaboration to advance new innovative, environmentally sustainable technologies and clean energy projects.

Also during 2009, the Company was accepted as a member of the Global Carbon Capture and Storage Institute ("**GCCSI**"). The GCCSI is a bold initiative aimed at accelerating the worldwide commercialisation of CCS whose membership includes many of the world's most significant energy corporations. The Company embraces the global collaboration which the GCCSI represents and fully supports the objectives of this unique and essential organisation.

BUSINESS PROSPECTS

Conventional crude oil business

The conventional crude oil business in the PRC ended 2009 on a high note after creeping positive news during the year. According to the US Energy Information Administration, the PRC's apparent liquid fuels consumption in December 2009 increased by approximately 0.9 million barrels per day, or approximately 12% above earlier levels in 2009, as China's economic stimulus package continued to help push up both oil consumption and economic growth. Market prices for crude oil remained above US$70 per barrel (West Texas Intermediate, WTI) at year-end reflecting generally positive economic news globally.

Pursuing an integrated set of solutions is vital to resolving the complex energy problems of the world while providing superior returns to shareholders. Going forward, we will continue to build on our early mover position in unconventional natural gas and enhanced CBM in China by adding high quality resources and projects to our portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking ahead there are signs that the global recovery will be sustained although probably not without some dynamic movements. In light of circumstances, the Group continues to review opportunities for further development that could result in increases in proven reserves, oil recovery and production at the Qian An oilfields and discussions with the field operator, PetroChina, can be expected to continue.

Unconventional natural gas business

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, a number of favourable 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 metres annual CBM production by 2010. The emphasis on domestic exploration, development and production will undoubtedly ease pressure for imported gas and the commensurate demand for very large, long lead-time import facilities.

The PRC is considered as one of the most prospective regions in the world for CBM development based on its widespread high quality coal resources and within the PRC, the Junggar basin of Xinjiang is considered to be among the most prospective regions for CBM.

International shale gas developments

Unconventional natural gas exploration and production remains a hot topic in the international energy world and the Group is closely following developments because of the significant value being created by parties active in the field. In addition to the ongoing rapid advance of shale gas development in North America where international major ExxonMobil recently announced a multi-billion dollar acquisition of a shale gas producing company in the United States, it was reported that both Shell and ExxonMobil have launched shale gas exploration efforts in Western Europe. In addition, Shell announced a shale gas study in the Sichuan Basin in the PRC in cooperation with PetroChina .

The Group considers the continued international expansion of such activity to be an acknowledgement of the early mover and leading edge attributes of the Group's strategy in unconventional natural gas in the PRC.

FINANCIAL REVIEW

Oil and gas segment

Conventional crude oil business

With average monthly production of approximately 11,000 barrels and crude oil price in the PRC maintaining at a level ranging between approximately US$60 to US$70 per barrel, results of Qian An, a joint-controlled entity improved moderately in the last quarter of the year. However, due to the comparatively low crude oil price in the PRC in the first half of 2009, the Group's share of results of Qian An for the year ended 31 December 2009 amounted to loss of approximately HK$3.3 million (for the period from 1 August 2007 to 31 December 2008: profits of approximately HK$3.2 million).

At 31 December 2009, the Group carried out a review of the recoverable amount of its interest in Qian An, having regard to the fluctuation in international oil price and the change in market conditions. The review led to the recognition of an impairment loss of approximately HK$59.7 million, which has been recognised in the Group's share of profits less losses of the jointly-controlled entity for the year ended 31 December 2009 (for the period from 1 August 2007 to 31 December 2008: approximately HK$227.8 million).

Non-conventional natural gas business

During the year 31 December 2009, the Group's non-conventional natural gas businesses were still in exploration and evaluation phases.

During the year ended 31 December 2009, several transactions occurred that resulted in a net increase in the equity position in TWE held by the Group, details of which are set out under the paragraph "Material acquisitions and disposals of subsidiaries and affiliated companies" below.

On 11 August 2009, the Group acquired a 9% subordinated unsecured convertible debentures ("**Debentures**") issued by Petromin at an aggregate amount of C$630,000. Upon full conversion of the Debentures, Petromin will allot and issue to the Group a maximum of 3,150,000 new common shares. As at 31 December 2009, the Debentures amounted to approximately HK$3.9 million and were recognised as financial asset at fair value through profit or loss.

Information technology ("IT") and network infrastructure segment

During the year ended 31 December 2009, the Group continued focusing its resources on energy-related business and scaled-down its IT solutions and services business. As a result of the Group's change in business model, the Group's revenue generated from IT related businesses for the year ended 31 December 2009 amounted to approximately HK$0.3 million (for the period from 1 August 2007 to 31 December 2008: approximately HK$2.2 million).

Administrative and operating expenses

For the year ended 31 December 2009, administrative and operating expenses amounted to approximately HK$44.1 million (for the period from 1 August 2007 to 31 December 2008: approximately HK$163.9 million), representing a decrease of approximately 73.1%. The significant decrease was mainly due to a reduction in legal and professional fees, which in the previous financial period were incurred as a result of the various acquisition activities that took place during the period from 1 August 2007 to 31 December 2008. There was also a reduction in share-based payments expense for the year ended 31 December 2009, whereby an aggregate of 33,155,000 share options were granted with share-based payments expense amounting to approximately HK$4.5 million (for the period from 1 August 2007 to 31 December 2008: 35,400,000 share options granted with share-based payments expense amounting to approximately HK$32.9 million).

Other comprehensive income

During the year ended 31 December 2009, exchange differences arising on translation of Canadian operation substantially increased to approximately HK$109.0 million (for the period from 1 August 2007 to 31 December 2008: loss of approximately HK$27.3 million) because the Canadian dollars ("**C$**") as a functional currency, against the Hong Kong dollars ("**HK$**") as a presentation currency, increased significantly by approximately 16.6% when translating the carrying value of Group's Canadian subsidiary.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2009, the Group mainly financed its operations with internally generated cash flows and funds raised from previous share placements. As at 31 December 2009, the Group had bank balances and cash of approximately HK$79.5 million (as at 31 December 2008: approximately HK$133.7 million). The Group's current ratio stood at approximately 2.5 as at 31 December 2009 (as at 31 December 2008: 3.5).

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

As at 31 December 2009, the Group had net assets of approximately HK$854.7 million (as at 31 December 2008: approximately HK$841.0 million). The increase was mainly due to the increase in oil and gas properties for the non-conventional natural gas business under TWE.

As at 31 December 2009, the Group maintained a debt-free capital structure.

As at 31 December 2009, the Group had no payables incurred which were not in the ordinary course of business and accordingly the gearing ratio was nil (31 December 2008: Nil).

CHARGE ON GROUP ASSETS

As at 31 December 2009, the Group did not have any charge on its assets (31 December 2008: Nil).

FOREIGN EXCHANGE EXPOSURE

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

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

During the year ended 31 December 2009, the Group did not make any significant investments or future plans for material investments. 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

During the year ended 31 December 2009, several transactions occurred that resulted in a net increase in the equity position in TWE held by the Group:

(i) On 11 February 2009, Petromin exercised its warrants to acquire 16,666,667 new common shares in TWE at C$500,000 (equivalent to approximately HK$3.2 million). After the exercise, Petromin holds 56,666,667 common shares and 700,000 preferred shares of TWE, representing approximately 30.90% of the current issued common shares and preferred shares in the capital of TWE, and 23,333,333 warrants of TWE. The shareholding held by the Group, through Chavis International Limited ("**Chavis**"), in TWE was then diluted from approximately 63.91% to approximately 58.17%.

TWE has remained a subsidiary of the Group after this transaction. Therefore, the difference between the consideration paid by Petromin and the relevant share of the carrying value of the net assets of TWE deemed disposed by the Group of approximately HK$35.1 million is recorded in equity.

(ii) On 17 August 2009, Aces Diamond International Limited, a wholly-owned subsidiary of the Company, completed the subscription for 40,000,000 ordinary shares, 40,000,000 A warrants and 40,000,000 B warrants of TWE for a consideration of CAD2,000,000 (equivalent to approximately HK$14.1 million). After this subscription, the Group's controlling interests in TWE has increased from approximately 58.17% to 65.58%.

TWE has remained a subsidiary of the Group after this transaction. Therefore, the difference between the consideration paid and the share of the carrying value of the net assets of TWE acquired of approximately HK$48.7 million is recorded in equity.

(iii) On 1 November 2009, Petromin exercised 16,666,667 warrants of TWE, at an aggregate exercise price of approximately CAD500,000 (equivalent to approximately HK$3.6 million) to subscribe for 16,666,667 new common shares in the capital of TWE. After the exercise, Petromin holds 73,333,334 common shares and 700,000 preferred shares of TWE, representing approximately 30.55% of the then total issued common shares and preferred shares in the capital of TWE. After the transaction, the Group's shareholding represents approximately 61.07% of the then issued common shares and preferred shares in the capital of the TWE, or approximately 65.48% of the issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis.

TWE has remained a subsidiary of the Group after this transaction. Therefore, the difference between the consideration paid by Petromin and the relevant share of the carrying value of the net assets of TWE deemed disposed by the Group of approximately HK$31.4 million is recorded in equity.

Save as disclosed above, there were no other material acquisitions/disposals which would have been required to be disclosed under the GEM Listing Rules.

CAPITAL COMMITMENTS

As at 31 December 2009, the Group had capital commitments amounting to approximately HK$11.5 million (31 December 2008: approximately HK$22.1 million).

CONTINGENT LIABILITIES

As at 31 December 2009, the Group had no contingent liabilities (31 December 2008: Nil).

EMPLOYEES' INFORMATION

As at 31 December 2009, the Group had 22 full-time employees (31 December 2008: 21) working in Hong Kong, the PRC and Canada. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

In addition to regular remuneration, share options may be granted to selected staff with reference to 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.

CORPORATE GOVERNANCE REPORT

The Company is committed to attaining and maintaining a high standard of corporate governance, the principles of which are to uphold integrity, transparency and accountability in all aspects of business and to ensure that affairs are conducted in accordance with applicable laws and regulations. It believes that good corporate governance is fundamental to the success of the Company and to the enhancement of shareholders' value. The Company applied the principles of, and complied with, the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("**CG Code**") set out in Appendix 15 to the GEM Listing Rules throughout the year ended 31 December 2009, except for certain deviations as explained below. The Board will review the current practices at least annually, and make appropriate changes if considered necessary.

DIRECTORS' SECURITIES TRANSACTIONS

On 23 March 2009, the Company adopted a revised code of conduct regarding securities transactions by Directors ("**Model 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 Model Code throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

As at the date of this report, the Board comprised five Directors, including two executive Directors, namely Mr. Chan Wing Him Kenny, the Chairman and Chief Executive Officer ("**CEO**") of the Company, and Dr. Arthur Ross Gorrell, and three independent non-executive Directors ("**INEDs**"), namely Mr. David Tsoi, Mr. Lo Chi Kit and Mr. Tam Hang Chuen. Biographical details of the Directors are set out in the Directors, International Advisory Board and Senior Management Profile section on pages 23 to 26 of this report.

The Board meets regularly and at least four times a year. The Board held five meetings during the year ended 31 December 2009. The attendance of individual Directors at Board and Board committee meetings during 2009 is set out in the following table:

	Meetings attended/eligible to attend (Note)		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Chan Wing Him Kenny	5/5	–	3/3
Arthur Ross Gorrell	4/5	–	–
Independent Non-executive Directors			
David Tsoi	5/5	5/5	–
Lo Chi Kit	4/5	5/5	3/3
Tam Hang Chuen	5/5	5/5	3/3

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

During the year ended 31 December 2009, the Directors also participated in the approval of routine and operational matters of the Company by way of written resolutions circulated to them together with supporting documents and briefings from the Chief Financial Officer or the Company Secretary of the Company ("**Company Secretary**"). The Directors receive at least 14 days' prior written notice of a regular meeting and may propose matters for discussion to be included in the agenda. The agenda together with board papers are sent to the Directors at least three days prior to a regular meeting.

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

BOARD OF DIRECTORS *(CONTINUED)*

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

Throughout the year ended 31 December 2009, 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 Chairman and CEO, Mr. Chan Wing Him Kenny, who is responsible for corporate planning, business development strategy and overall direction of the Group. Mr. Chan is also responsible for management of the Board and the day-to-day management of the Group's business. Mr. Chan is assisted by the 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 investor relations, the Chief Financial Officer in financial management, internal control and financial reporting and the General Counsel in legal and regulatory compliance.

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

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

INDEPENDENT AUDITORS' REMUNERATION

During the year ended 31 December 2009, the independent auditors provided the following audit and permissible non-audit services to the Company:

	2009	2008
	HK$'000	HK$'000
Audit	**1,500**	880
Tax advisory	**–**	11

BOARD COMMITTEES

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

MANAGEMENT COMMITTEE

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

CORPORATE GOVERNANCE REPORT

INTERNATIONAL ADVISORY BOARD

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

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

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

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

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 year ended 31 December 2009 for approving matters in relation to, inter alia, the change of 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.

The Audit Committee meets regularly with management and external auditors and reviews their reports. During the year ended 31 December 2009, the Audit Committee met five times. The record of attendance of each member at the committee meetings is set out on page 17 of this report.

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

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 Wing Him Kenny 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 individuals and the Group as well as prevailing market practice and conditions.

Three meetings of the Remuneration Committee had been held during the year ended 31 December 2009 for reviewing and approving the remuneration package of certain Directors and newly appointed senior management. The record of attendance of each member at the committee meetings is set out on page 17 of this report.

Certain Directors and employees were granted bonus and share options under the Share Option Scheme (hereinafter defined) determined in accordance with the performance of the Group and the grantees. Subsequent to the year ended 31 December 2009, all members of the Remuneration Committee met in February 2010 and reviewed and approved the year-end bonus for 2009 for certain Directors and senior management. During the process, no individual Director was involved in decisions relating to his 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 section of this report.

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

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining an adequate and effective internal control system and for reviewing its effectiveness to safeguard the Group's assets against unauthorised use or disposition, and to protect the interests of shareholders. The Board through the Audit Committee had conducted an annual review on the system of internal control and risk management in respect of the year ended 31 December 2009. The review covers all material controls, including financial, operational and compliance controls and risk management functions of the Group. The results of the review for the year ended 31 December 2009 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirm that the systems and procedures of the Group's internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. Areas of improvement have been identified and appropriate measures have been put in place to manage the risks. No material deficiencies have been identified so far and there were no significant areas of concern which may affect the shareholders.

The Board considers that the Group's internal control system is adequate and effective and the Company has complied with the code provisions in respect of internal control under the CG Code for the year ended 31 December 2009.

CORPORATE GOVERNANCE REPORT

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 year ended 31 December 2009, an annual general meeting was held on 20 April 2009. 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. Since the Company and the auditor require more time to, among other things, finalise prior period adjustments following the change of auditor and the preliminary findings of the audit of the Group, the Company has not given at least 20 clear business days of notice to its shareholders for the annual general meeting to be held on 12 April 2010. However, 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. 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, INTERNATIONAL ADVISORY BOARD AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. CHAN Wing Him Kenny, aged 59, has joined the Group since November 2006 as an executive Director and the Chairman and CEO of the Company. In addition, Mr. Chan is the chairman and a member of the Remuneration Committee and a member of the Management Committee. He is responsible for the Group's overall strategy and its execution.

Mr. Chan has over 30 years of experience in oil and gas industry in Western Canada, the Middle East and China. In Western Canada Mr. Chan's experience involved multiple resource development deals as well as executive management and leadership of a listed corporation with production assets in the well-known Frog Lake, Gilby and Redwater fields. He has extensive experience in non-conventional oil and gas production specialising in coalbed methane ("**CBM**") including enhanced coalbed methane ("**ECBM**") production using carbon dioxide ("**CO_2**") injection. Mr. Chan is well known for his financing prowess and financial structuring expertise and his deep understanding of the up-stream natural resources industry is marked by a track record of founding, backing and financing successful resource companies over a three decade period. Mr. Chan's extensive overseas networks and close relationships within the global business and financial communities continue to support his endeavours in the energy sector.

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

Dr. Arthur Ross GORRELL, aged 64, 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 a member of the Management Committee. He is responsible for business expansion and development of the Group.

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

Dr. Gorrell has joined Petromin since 1990 as one of the founders 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. 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 62, 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. 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 49, 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 54, 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 22 years of experience in senior management and business operations, in particular, in the printing industry. Mr. Tam has broad connection with commercial groups in Asian region.

DIRECTORS, INTERNATIONAL ADVISORY BOARD AND SENIOR MANAGEMENT PROFILE

INTERNATIONAL ADVISORY BOARD

Dr. William D. GUNTER, aged 67, joined the Company in September 2009 as a member of the International Advisory Board. Dr. Gunter is an internationally eminent scientist who has a wealth of experience in the field of CO_2 sequestration and geological storage ("**CCS**"). He is responsible for advising the Board and the Group on CCS, an important and rapidly growing business for the Company.

Over the past 15 years, Dr. Gunter has been leading combined industry-government funded projects for geological storage of CO_2 in aquifers, oil reservoirs and coal seams. Additionally, Dr. Gunter has contributed to more than 70 publications on CCS and greenhouse gas ("**GHG**") emissions. He served as member of Canada's Technology Issues Table on GHG emissions and co-chaired the Canadian Capture and Geological Storage Roadmapping consultations which led to the production of two key reports which form part of the basis for the Canadian Roadmap for CCS. Dr. Gunter was a Lead Author on the Intergovernmental Panel on Climate Change ("**IPCC**") special report on CCS, released in December 2005 and he subsequently received recognition from the IPCC for contributing to the award of the Nobel Peace Prize for 2007 to the IPCC.

During 2007, he was a member of the Technology Working Group of the Canadian Federal-Provincial ecoENERGY Task Force and in 2008 served as a member of the Government of Alberta Working Group on Capture & Geological Storage of GHG Emissions as well as the Alberta Energy Strategy Advisory Committee.

Dr. Gunter has received awards from:

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

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

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

In 2008 he was identified as one of Alberta's 50 Most Influential People by Alberta Venture Magazine and received the Greenman award in recognition of his lifetime work on greenhouse gas mitigation at the 9th International Conference on Greenhouse Gas Control Technologies.

Dr. Gunter holds a Bachelor of Science and a Master of Science degrees in geology from the University of New Brunswick and a PhD in geochemistry from Johns Hopkins University. He previously taught at the University of Wyoming; was a Research Fellow at Eidgenössische Technische Hochschule and served terms as Adjunct Professor at both the University of Alberta and the University of Calgary. He is a Professional Engineer in Alberta, Canada (APEGGA) and is active as an international consultant.

DIRECTORS, INTERNATIONAL ADVISORY BOARD AND SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT

Mr. Donald O. DOWNING, aged 61, 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 CBM and related activities.

Mr. Downing has over 36 years of experience in international marketing and business development for large corporations and management consultancy to the energy industry. 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. 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.

Mr. LI Yutang, aged 68, joined the Group as a chief engineer in August 2008. He has been appointed as a director of Jilin Hengli Industries Liability Co., Ltd. since September 2009. Mr. Li is responsible for providing technical advice on oilfield development, in particular, the Qian An oilfields and the Group's future expansion in the PRC. Over the past four decades, Mr. Li spent most of his time in the development and production areas in the oil and gas industry, which has earned him a wealth of solid industry experiences in the PRC and overseas.

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

Mr. Li was a member of the editorial committee for "Drilling and Completion Fluids", a technological journal of ministry rank and a member of the Oil Extraction Technology Specialist Group of the Development and Production Department of CNPC in 1990.

Mr. Li was named as one of the specialists with outstanding contribution to CNPC in 1993 and acted as a member of the Oil-Gas Production Standard Committee, Downhole Tools Sub-commission of CNPC in 1994. Mr. Li had received numerous awards ranging from bureau to state levels for his scientific achievements in the PRC oil and gas industry, in particular, Mr. Li was awarded the National Convention on Science Award in 1978, National Invention Award in 1980, National Scientific Progress Award in 1992 and National Scientific Achievement Award in 1995. Mr. Li has been appointed by the State Council as an expert on making outstanding contributions, being entitled to receive Special Government Allowance since 1994 and promoted to a senior engineer at professor-level in 1999.

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

Ms. MOK Kam Sheung, aged 50, 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 practice.

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.

DIRECTORS, INTERNATIONAL ADVISORY BOARD AND SENIOR MANAGEMENT PROFILE

Mr. David YIP, aged 39, 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 and leading the Group's effort to broaden and extend relationships with major institutional and corporate investors both locally and globally. Mr. Yip is also responsible for developing the financing strategy of the subsidiaries of the Company at the short, medium and long term in line with the funding requirements and capital market appetite; tapping into capital markets, multilateral agencies and other resources to ensure appropriate financing; developing and maintaining valuation models relating to proposed acquisitions and/or strategic investments; coordinating cross-functional teams to ensure objectives are achieved and to maximize full value capture.

Mr. Yip has in-depth knowledge of the China's downstream gas sector with strong industry connections and strong relationships with Government officials and management of top tier Asian utilities. 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. His experience include executing financing transactions, including but not limited to, on the energy-related industry, such as China Shenhua Energy, China Power International Development Limited, Huaneng Power International Inc. and CLP Holdings Limited. Mr. Yip has completed over US$5 billion in advisory assignments and financings and brings specialist skills in corporate financial advice and debt and equity capital raisings. He has been involved in major energy sector transactions and has provided financial advice to corporations and Governments on energy sector restructurings, acquisitions and financings. Mr. Yip has successfully established himself as one of the most respected utilities analysts in the industry. Mr. Yip was ranked top 3 of the best earnings estimators for Asian utilities in the 2008 Financial Times/StarMine survey. His team in Merrill Lynch ranked #1 in focus accounts and #2 overall in the 2007 Asia Equities Greenwich Survey. Mr. Yip is also a frequent guest speaker at leading industry conferences on utilities and renewable sector conferences and has published various articles with topics relating to matters of the utilities and renewable sector.

Mr. Yip holds a Bachelor of Arts degree (Economics) from Canada.

Mr. CHAN Wan Tsun Adrian Alan, aged 31, has been appointed as the Chief Financial Officer of the Group since November 2009. Mr. Chan is mainly responsible for the overall financial management, internal control function and accounting function of the Group. He has over nine years of experience in corporate finance. Prior to joining the Group, he was associate director of UOB Asia (Hong Kong) Limited, mainly responsible for the execution of financial advisory, initial public offering (IPO), merger and acquisitions, privatisation and other equity capital market transactions in the Greater China Region and Southeast Asia. He has also previously worked for the equity capital markets department of DBS Asia Capital Limited, the corporate finance department of Vickers Ballas Capital Limited, and as auditor for a top-tier international accounting firm.

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

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting to shareholders their report and the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2009.

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement section of this report.

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year ended 31 December 2009 are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2009 are set out in note 31 to the consolidated financial statements.

RESERVES

As at 31 December 2009, 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$79.1 million in aggregate as at 31 December 2009, may be distributed provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Details of movements in the reserves of the Group during the year ended 31 December 2009 are set out in the consolidated statement of changes in equity section of this report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2009, sales to the Group's five largest customers accounted for approximately 98.2% of the Group's total sales and sales to the largest customer included therein accounted for approximately 48.1%.

During the year ended 31 December 2009, purchases from the Group's five largest suppliers accounted for approximately 100.0% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 95.6%.

Save as disclosed above, during the year ended 31 December 2009, none of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the issued share capital of the Company) had any beneficial interest in the Group's five largest customers or suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2009 and up to the date of this report were:

Executive Directors:

Chan Wing Him Kenny
Arthur Ross Gorrell

Independent Non-executive Directors:

David Tsoi
Lo Chi Kit
Tam Hang Chuen

In accordance with article 108 of the Articles of Association, Dr. Arthur Ross Gorrell and Mr. Tam Hang Chuen will retire from their offices at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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

DIRECTORS, INTERNATIONAL ADVISORY BOARD AND SENIOR MANAGEMENT PROFILE

Biographical details of the Directors, International Advisory Board and senior management of the Group are set out on pages 23 to 26 of this report.

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 36 to the consolidated financial statements, no Director had a significant beneficial interest, directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year ended 31 December 2009.

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

As at 31 December 2009, 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) Corporate interest	(i) 1,185,680,000 (Note)	–	1,185,680,000	
	(ii) Beneficial owner	(ii) Personal interest	(ii) 1,756,000	(ii) 20,347,200	22,103,200	
			1,187,436,000	20,347,200	1,207,783,200	49.66%
Arthur Ross Gorrell	Beneficial owner	Personal interest	2,625,000	4,700,000	7,325,000	0.30%
David Tsoi	Beneficial owner	Personal interest	–	750,000	750,000	0.03%
Lo Chi Kit	Beneficial owner	Personal interest	–	600,000	600,000	0.02%
Tam Hang Chuen	Beneficial owner	Personal interest	1,000,000	100,000	1,100,000	0.04%

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.

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

Name	Capacity	Nature of interests	Number of common shares held	Number of underlying shares held	Total	Approximate % of shareholding
Arthur Ross Gorrell	Beneficial owner	Personal interest	–	3,000,000	3,000,000	1.28%

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 2009, 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 2009, 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	1,185,680,000 (Note)	48.75%

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 1,185,680,000 shares in the Company held by Colpo. Mr. Chan Wing Him Kenny's indirect interests in 1,185,680,000 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 2009, 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, Underlying Shares and Debentures" above) had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

GROUP'S EMOLUMENT POLICY

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

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

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

On 25 January 2003, the share option scheme ("**Share Option Scheme**") of the Company was approved pursuant to written resolutions of the Company. On 8 April 2009, TWE adopted a share option scheme ("**TWE Scheme**") which was approved by shareholders in the Company's annual general meeting held on 20 April 2009.

The purpose of the Share Option Scheme and the TWE 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 and TWE.

Details of movement of the options granted under the Share Option Scheme and the TWE Scheme for the year ended 31 December 2009 are as follows:

Movement in Share Option Scheme

Name or category of participants	Date of grant	Exercise period	Exercise price per share (HK$)	As at 1 January 2009	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2009
Executive Directors								
Chan Wing Him Kenny	29/12/2006	29/12/2006 to 24/01/2013	0.0635(1)	15,847,200(1)	–	–	–	15,847,200(1)
	22/06/2007	22/06/2007 to 24/01/2013	1.365(2)	2,000,000(2)	–	–	–	2,000,000(2)
	19/06/2008	19/06/2010 to 18/06/2018	0.2316	500,000(3)	–	–	–	500,000(3)
	15/06/2009	15/06/2011 to 14/06/2019	0.73	–	2,000,000(3)	–	–	2,000,000(3)
Arthur Ross Gorrell	22/06/2007	22/06/2007 to 24/01/2013	1.365(2)	1,500,000(2)	–	–	–	1,500,000(2)
	29/10/2007	29/10/2007 to 24/01/2013	2.44	700,000	–	–	–	700,000
	19/06/2008	19/06/2010 to 18/06/2018	0.2316	500,000(3)	–	–	–	500,000(3)
	15/06/2009	15/06/2011 to 14/06/2019	0.73	–	2,000,000(3)	–	–	2,000,000(3)
Independent non-executive Directors								
David Tsoi	15/06/2009	15/06/2011 to 14/06/2019	0.73	–	750,000(3)	–	–	750,000(3)
Lo Chi Kit	15/06/2009	15/06/2011 to 14/06/2019	0.73	–	600,000(3)	–	–	600,000(3)
Tam Hang Chuen	15/06/2009	15/06/2011 to 14/06/2019	0.73	–	100,000(3)	–	–	100,000(3)
				21,047,200	5,450,000	–	–	26,497,200
Other employees								
In aggregate	26/04/2007	26/04/2007 to 24/01/2013	0.579(2)	120,000(2)	–	–	(80,000)(2)	40,000(2)
	19/06/2008	19/06/2010 to 18/06/2018	0.2316	9,500,000(3)	–	(50,000)(3)	–	9,450,000(3)
	15/06/2009	15/06/2011 to 14/06/2019	0.73	–	7,295,000(3)	(30,000)(3)	–	7,265,000(3)
	06/10/2009	06/10/2011 to 05/10/2019	0.75	–	60,000(3)	–	–	60,000(3)
				9,620,000	7,355,000	(80,000)	(80,000)	16,815,000
Others								
In aggregate	18/01/2007	18/01/2007 to 24/01/2013	0.0635(1)	1,000,000(1)	–	–	(1,000,000)(1)	–
	20/03/2007	20/03/2007 to 24/01/2013	0.1125(1)	16,240,000(1)	–	–	(400,000)(1)	15,840,000(1)
	26/04/2007	26/04/2007 to 24/01/2013	0.579(2)	1,000,000(2)	–	–	–	1,000,000(2)
	22/06/2007	22/06/2007 to 24/01/2013	1.365(2)	13,000,000(2)	–	–	–	13,000,000(2)
	29/10/2007	29/10/2007 to 24/01/2013	2.44	23,500,000	–	–	–	23,500,000
	19/06/2008	19/06/2010 to 18/06/2018	0.2316	500,000(3)	–	–	–	500,000(3)
	15/06/2009	15/06/2011 to 14/06/2019	0.73	–	20,000,000(3)	–	–	20,000,000(3)
	06/10/2009	06/10/2011 to 05/10/2019	0.75	–	350,000(3)	–	–	350,000(3)
				55,240,000	20,350,000	–	(1,400,000)	74,190,000
			Total:	85,907,200	33,155,000	(80,000)	(1,480,000)	117,502,200(4)
Weighted average exercise price per share (HK$)				1.02	0.73	0.42	0.10	0.95

Notes:

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

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

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

(4) As at 31 December 2009, the Company had 117,502,200 (31 December 2008: 85,907,200) share options outstanding under the Share Option Scheme, which represented approximately 4.83% (31 December 2008: 3.67%) of the Company's shares in issue on that date.

(5) During the year ended 31 December 2009, 32,745,000 share options and 410,000 share options were granted on 15 June 2009 and 6 October 2009, respectively. The closing prices of the Company's shares at the date of which the aforesaid share options were granted were HK$0.73 and HK$0.75, respectively.

Movement in TWE Scheme

Name or category of participants	Date of grant	Exercise period	Exercise price per share (C$)	As at 1 January 2009	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	As at 31 December 2009
Directors, chief executives, management shareholders or substantial shareholders or their respective associates								
Arthur Ross Gorrell	27/08/2008	27/08/2008 to 27/08/2011	0.03	3,000,000	–	–	–	3,000,000
Donald O Downing	27/08/2008	27/08/2008 to 27/08/2011	0.03	3,000,000	–	–	–	3,000,000
Others								
In aggregate	27/08/2008	27/08/2008 to 27/08/2011	0.03	6,850,000	–	–	–	6,850,000
			Total:	12,850,000	–	–	–	12,850,000

Details of valuation of the share options granted during the year ended 31 December 2009 under the Share Option Scheme is set out in note 33 to the consolidated financial statements.

COMPETING BUSINESS AND CONFLICTS OF INTEREST

During the year ended 31 December 2009, Mr. Chan Wing Him Kenny, an executive Director and a management shareholder of the Company, is a director and co-chairman of Petromin whilst Dr. Arthur Ross Gorrell, an executive Director, is a director, the president, co-chairman and chief executive officer of Petromin. As at 31 December 2009, Mr. Chan Wing Him Kenny directly and indirectly held 1,615,177 stock options entitling him to subscribe for 1,615,177 common shares in Petromin. Dr. Arthur Ross Gorrell held 2,243,193 common shares and 1,021,000 stock options entitling him to subscribe for 1,021,000 common shares in Petromin. Mr. Lo Chi Kit, an independent non-executive Director, held 262,500 common shares in Petromin.

Petromin is engaged in the business of acquisition and development of oil and gas properties. The Board considers that the business of Petromin competes, or is likely to compete, directly or indirectly, with the Group's business.

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.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year ended 31 December 2009.

PUBLIC FLOAT

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

AUDITORS

On 30 December 2009, PricewaterhouseCoopers ("**PwC**") was appointed by the Board to fill the casual vacancy created by SHINEWING (HK) CPA Limited. PwC 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, 19 March 2010

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Enviro Energy International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 98, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2009, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company 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 judgement, 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 Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year ended 31 December 2009 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 March 2010

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2009 HK$'000	As restated (Note 3) Period from 1 August 2007 to 31 December 2008 HK$'000
Revenue	9	**310**	2,213
Cost of sales		**(246)**	(1,818)
Gross profit		**64**	395
Other loss, net	26	**(509)**	–
Discount on acquisition	35	**–**	367,973
Administrative and operating expenses		**(44,095)**	(163,936)
Finance income	11	**42**	6,833
Share of profits less losses of:			
– jointly-controlled entity before impairment loss	21	**(3,279)**	3,198
– jointly-controlled entity's impairment loss	21	**(59,748)**	(227,802)
Loss before taxation	10	**(107,525)**	(13,339)
Income tax	13	**–**	–
Loss for the year/period		**(107,525)**	(13,339)
Attributable to:			
Equity holders of the Company		**(106,595)**	(11,146)
Minority interests		**(930)**	(2,193)
		(107,525)	(13,339)
Loss per share attributable to equity holders of the Company (expressed in HK cents per share)	16		
Basic and diluted		**(4.56)**	(0.49)
Dividend	14	**–**	–

The notes on pages 42 to 98 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

	Note	31 December 2009 HK$'000	As restated (Note 3) 31 December 2008 HK$'000	1 August 2007 HK$'000
ASSETS				
Non-current assets				
Plant and equipment	17	**3,531**	4,198	524
Oil and gas properties	18	**1,022,216**	860,734	–
Interest in a jointly-controlled entity	21	**2,710**	70,290	–
Available-for-sale investment	23	**1,411**	659	–
Club memberships		**2,370**	2,370	–
		1,032,238	938,251	524
Current assets				
Trade receivables	24	**14**	86	198
Deposits, prepayments and other receivables	25	**1,385**	4,895	94,546
Amount due from a jointly-controlled entity	22	**19,401**	14,694	–
Financial asset at fair value through profit or loss	26	**3,934**	–	–
Bank balances and cash	27	**79,513**	133,740	395,115
		104,247	153,415	489,859
Total assets		**1,136,485**	1,091,666	490,383
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	31	**6,080**	5,842	5,373
Share premium and reserves		**549,456**	603,879	477,773
		555,536	609,721	483,146
Minority interests		**299,118**	231,302	–
Total equity		**854,654**	841,023	483,146
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	30	**240,941**	206,578	–
Current liabilities				
Trade payables	28	**13,607**	12,251	51
Accrued liabilities and other payables		**27,283**	31,734	7,186
Amount due to a director	29	**–**	80	–
		40,890	44,065	7,237
Total liabilities		**281,831**	250,643	7,237
Total equity and liabilities		**1,136,485**	1,091,666	490,383
Net current assets		**63,357**	109,350	482,622
Total assets less current liabilities		**1,095,595**	1,047,601	483,146

Chan Wing Him Kenny
Director

Arthur Ross Gorrell
Director

The notes on pages 42 to 98 are an integral part of these financial statements.

BALANCE SHEET

	Note	31 December 2009 HK$'000	As restated (Note 3) 31 December 2008 HK$'000	1 August 2007 HK$'000
ASSETS				
Non-current assets				
Plant and equipment	17	920	1,469	49
Investments in subsidiaries	19	–	293,831	–
Available-for-sale investment	23	1,411	659	–
		2,331	295,959	49
Current assets				
Amounts due from subsidiaries	20	80,007	102,837	–
Deposits, prepayments and other receivables	25	2,093	1,142	93,778
Bank balances and cash	27	67,405	117,393	394,695
		149,505	221,372	488,473
Total assets		151,836	517,331	488,522
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	31	6,080	5,842	5,373
Share premium and reserves	32	139,810	503,287	477,431
Total equity		145,890	509,129	482,804
LIABILITIES				
Current liabilities				
Accrued liabilities and other payables		5,946	8,192	5,640
Amount due to a subsidiary	20	–	10	78
		5,946	8,202	5,718
Total liabilities		5,946	8,202	5,718
Total equity and liabilities		151,836	517,331	488,522
Net current assets		143,559	213,170	482,755
Total assets less current liabilities		145,890	509,129	482,804

Chan Wing Him Kenny
Director

Arthur Ross Gorrell
Director

The notes on pages 42 to 98 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2009 HK$'000	As restated (Note 3) Period from 1 August 2007 to 31 December 2008 HK$'000
Loss for the year/period	**(107,525)**	(13,339)
Other comprehensive income/(loss)		
Gain/(loss) on change in fair value of available-for-sale investment	**752**	(2,922)
Exchange differences arising from translation of foreign operations	**109,033**	(27,304)
Other comprehensive income/(loss) for the year/period, net of tax	**109,785**	(30,226)
Total comprehensive income/(loss) for the year/period	**2,260**	(43,565)
Attributable to:		
Equity holders of the Company	**(40,946)**	(30,862)
Minority interests	**43,206**	(12,703)
Total comprehensive income/(loss) for the year/period	**2,260**	(43,565)

The notes on pages 42 to 98 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserve	Available-for-sale investment reserve	Share options reserve	Translation reserve	Other 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	HK$'000
As at 1 August 2007	5,373	524,950	19,980	–	36,642	(90)	–	(103,709)	483,146	–	483,146
Comprehensive loss											
Loss for the period, as restated (Note 3)	–	–	–	–	–	–	–	(11,146)	(11,146)	(2,193)	(13,339)
Other comprehensive loss											
Loss on change in fair value of available-for-sale investment (Note 23)	–	–	–	(2,922)	–	–	–	–	(2,922)	–	(2,922)
Exchange differences arising from translation of foreign operations	–	–	–	–	–	(16,794)	–	–	(16,794)	(10,510)	(27,304)
Total other comprehensive loss	–	–	–	(2,922)	–	(16,794)	–	–	(19,716)	(10,510)	(30,226)
Total comprehensive loss for the period	–	–	–	(2,922)	–	(16,794)	–	(11,146)	(30,862)	(12,703)	(43,565)
Transactions with shareholders, as restated (Note 3)											
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
Acquisition of subsidiaries (Note 35)	–	–	–	–	–	–	–	–	–	244,005	244,005
Deferred share consideration for the acquisition of a subsidiary (Note 35)	–	8,424	–	–	–	–	–	–	8,424	–	8,424
Total transactions with shareholders	469	129,577	–	–	21,909	–	–	5,482	157,437	244,005	401,442
As at 31 December 2008, as restated (Note 3)	5,842	654,527	19,980	(2,922)	58,551	(16,884)	–	(109,373)	609,721	231,302	841,023

The notes on pages 42 to 98 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	**Share premium**	**Capital reserve**	**Available-for-sale investment reserve**	**Share options reserve**	**Translation reserve**	**Other 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	HK$'000
As at 31 December 2008, as previously reported	5,842	646,103	19,980	(2,922)	58,551	(16,773)	–	(79,881)	630,900	231,302	862,202
Additional depreciation charge arising from the recognition of Qian An Oil and Gas Properties (Note 3(a)(iii))	–	–	–	–	–	–	–	(1,556)	(1,556)	–	(1,556)
Recognition of additional impairment loss on the Qian An Oil and Gas Properties (Note 3(a)(iv))	–	–	–	–	–	–	–	(28,422)	(28,422)	–	(28,422)
Reversal of amortisation of intangible assets and its corresponding tax impact for TWE Oil and Gas Properties (Note 3(b)(ii))	–	–	–	–	–	(111)	–	5,037	4,926	–	4,926
Reclassification of deferred share consideration to equity (Note 3(b)(iii))	–	8,424	–	–	–	–	–	–	8,424	–	8,424
Error in recognising directors' and management's bonus (Note 3(c))	–	–	–	–	–	–	–	(4,551)	(4,551)	–	(4,551)
As at 31 December 2008, as restated	5,842	654,527	19,980	(2,922)	58,551	(16,884)	–	(109,373)	609,721	231,302	841,023
Comprehensive income/(loss)											
Loss for the year	–	–	–	–	–	–	–	(106,595)	(106,595)	(930)	(107,525)
Other comprehensive income											
Gain on change in fair value of available-for-sale investment	–	–	–	752	–	–	–	–	752	–	752
Exchange differences arising from translation of foreign operations	–	–	–	–	–	64,897	–	–	64,897	44,136	109,033
Total other comprehensive income	–	–	–	752	–	64,897	–	–	65,649	44,136	109,785
Total comprehensive income/(loss) for the year	–	–	–	752	–	64,897	–	(106,595)	(40,946)	43,206	2,260
Transactions with shareholders											
Recognition of equity-settled share-based payments	–	–	–	–	4,479	–	–	–	4,479	–	4,479
Exercise of share options	4	296	–	–	(145)	–	–	–	155	–	155
Forfeiture of share options	–	–	–	–	(25)	–	–	25	–	–	–
Deemed disposal of minority interests (Note 36(a)(v) & Note 36(a)(vi))	–	–	–	–	–	–	(66,586)	–	(66,586)	73,323	6,737
Purchase of minority interests (Note 36(a)(vi))	–	–	–	–	–	–	48,713	–	48,713	(48,713)	–
Issuance of deferred share consideration (Note 35)	234	(234)	–	–	–	–	–	–	–	–	–
Total transactions with shareholders	238	62	–	–	4,309	–	(17,873)	25	(13,239)	24,610	11,371
As at 31 December 2009	6,080	654,589	19,980	(2,170)	62,860	48,013	(17,873)	(215,943)	555,536	299,118	854,654

The notes on pages 42 to 98 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2009 HK$'000	As restated (Note 3) Period from 1 August 2007 to 31 December 2008 HK$'000
Operating activities			
Loss before taxation		(107,525)	(13,339)
Adjustments for:			
Bank interest income		(42)	(6,833)
Discount on acquisition		–	(367,973)
Depreciation of plant and equipment		1,452	1,033
Write off of plant and equipment		–	219
Share of profits less losses of:			
– jointly-controlled entity before impairment loss		3,279	(3,198)
– jointly-controlled entity impairment loss		59,748	227,802
Share-based payments		4,479	32,868
Changes in fair value of financial asset through profit or loss		509	–
Operating cash flow before movements in working capital		(38,100)	(129,421)
Decrease in trade receivables		72	112
Decrease in deposits, prepayments and other receivables		3,370	8,996
(Decrease)/increase in trade payables		(585)	10,699
Decrease in accrued liabilities and other payables		(4,453)	(48,525)
Net cash used in operating activities		(39,696)	(158,139)
Investing activities			
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	35	–	(86,707)
Addition to oil and gas properties		(15,693)	(18,742)
Purchase of plant and equipment		(785)	(5,230)
Purchase of available-for-sale investment		–	(3,581)
Proceeds from disposal of plant and equipment		–	332
Purchase of financial asset at fair value through profit or loss		(4,443)	–
Purchase of club memberships		–	(2,370)
Bank interest received		42	6,833
Net cash used in investing activities		(20,879)	(109,465)
Financing activities			
Issue of shares by subsidiary to minority shareholder		6,737	–
Proceeds from exercise of share options		155	6,145
(Decrease)/increase in amount due to a director		(80)	80
Net cash generated from financing activities		6,812	6,225
Net decrease in bank balances and cash		(53,763)	(261,379)
Bank balances and cash at beginning of year/period		133,740	395,115
Exchange (losses)/gains on bank balances and cash		(464)	4
Bank balances and cash at end of year/period		79,513	133,740

The notes on pages 42 to 98 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (Revised) of the Cayman Islands on 3 July 2002. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange") 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. The Company and its subsidiaries are collectively referred to as the "Group".

As at 31 December 2009, the Directors consider Colpo Mercantile Inc. ("Colpo"), a company incorporated in the British Virgin Islands, as the immediate and ultimate holding company of the Group.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 19 March 2010.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

The consolidated financial statements for the current period cover the year ended 31 December 2009. The comparative amounts shown for the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a seventeen-month-period from 1 August 2007 to 31 December 2008 and therefore may not be comparable with amounts shown for the current year. The Directors determined to bring the balance sheet date of the Company in line with that of the statutory year end date of Chavis International Limited ("Chavis") and Allied Resources Limited ("Allied Resources"), both of which are the Group's major business units operating in the upstream oil and gas exploration segment because such alignment can facilitate the preparation of the Group's consolidated financial statements.

3 CORRECTION OF PRIOR PERIOD ERRORS

During the year ended 31 December 2009, the Group has discovered several errors in its consolidated financial statements for the period from 1 August 2007 to 31 December 2008. The errors were related to the accounting treatments of the two acquisitions made during the period from 1 August 2007 to 31 December 2008, namely the acquisitions of Allied Resources and Chavis, the mathematical errors in the calculation of the impairment loss for a jointly-controlled entity and the cut-off errors in the recognition of employee bonus. A detailed description of the nature of each prior period error is provided in Note 3a to Note 3c below. The amounts of the prior period correction for each financial statement line item affected are presented in the tables in Note 3 I to Note 3 IV below.

Note a: Errors in relation to the acquisition of Allied Resources

On 29 February 2008, the Group acquired 100% of the issued share capital of Allied Resources, which owns 50% of the equity interests in Qian An Oil Development Co., Ltd ("Qian An"), a jointly-controlled entity of the Group.

(i) Recognition of the fair values of oil and gas properties at Qian An and its corresponding deferred tax impact at the date of acquisition

In connection with this acquisition, the Group had recognised goodwill and interest in a jointly-controlled entity of HK$289,831,000 and HK$8,570,000, respectively at the date of acquisition in 2008. Since the fair value of Allied Resources primarily arose from the oil and gas properties of Qian An and its rights to exploit petroleum resources and produce petroleum ("Qian An Oil and Gas Properties"), the associated economic benefits to be derived from Qian An Oil and Gas Properties should have been allocated and recognised in the purchase price allocation in accordance with HKFRS 3, "Business Combinations" as oil and gas properties. Furthermore, a deferred tax liability in relation to the increase in the fair value of the allocated Qian An Oil and Gas Properties should be established at the acquisition date. Since Qian An is a jointly-controlled entity of the Group, the fair value of the Qian An Oil and Gas Properties and its related tax impact should be included in the carrying value of the Group's interest in a jointly-controlled entity. Accordingly, the Group's interest in a jointly-controlled entity should be increased, with a corresponding decrease in goodwill arising from the acquisition.

(ii) Balance sheet reclassification of the remaining goodwill to the carrying value of the Group's interest in a jointly-controlled entity

As stated above, since the fair value of Allied Resources primarily arose from the Qian An Oil and Gas Properties, any remaining goodwill should be attributable to the acquisition of the business of Qian An, and should be included in the carrying value of the Group's interest in a jointly-controlled entity, rather than separately presented on the Group's balance sheet in accordance with the Group's accounting policy (Note 4(a)(iii)). Accordingly, the Group's interest in a jointly-controlled entity should be increased, with a corresponding decrease in goodwill arising from the acquisition.

(iii) Additional depreciation charge arising from the recognition of the fair value of Qian An Oil and Gas Properties

In accordance with the Group's accounting policy, oil and gas properties are depreciated using the unit-of-production method during the production phase (Note 4(d)). The recognition of the fair value of Qian An Oil and Gas Properties as stated above has resulted in an increase in the depreciation charge during the period ended 31 December 2008. This adjustment reduced the Group's share of profit of the jointly-controlled entity for the period ended 31 December 2008, with a corresponding decrease in the Group's interest in the jointly-controlled entity at 31 December 2008.

3 CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

Note a: Errors in relation to the acquisition of Allied Resources *(Continued)*

(iv) Recognition of additional impairment loss on the Qian An Oil and Gas Properties at 31 December 2008

As stated in Note 3 (a)(i), the recognition of the fair value of the Qian An Oil and Gas Properties has resulted in an increase in the amount of deferred tax liabilities. The recognition of such deferred tax liabilities has reduced the Group's share in the Qian An's net assets, and therefore has caused a corresponding increase in the amount of goodwill recognised at the date of acquisition. For the purpose of impairment assessment, the Group engaged BMI Appraisals Limited ("BMI") and Vigers Appraisal & Consulting Limited ("Vigers") to perform valuations of the Qian An business as at 31 December 2008. On the basis of the results of these valuations (see Note 5(c)), the Group has determined that the additional goodwill was impaired which has caused an additional impairment loss on the Group's interest in a jointly-controlled entity.

Furthermore, there was a mathematical error noted in management's original impairment loss calculation, understating the impairment loss for the period ended 31 December 2008. As a result of the impact of recognising a deferred tax liability and the correction of the mathematical error, the Group has recorded an increase in impairment loss from HK$199,380,000 to HK$227,802,000 for the period ended 31 December 2008 and reduced the carrying value of its interest in a jointly-controlled entity as at 31 December 2008 correspondingly.

Note b: Adjustments in relation to the acquisition of Chavis

On 13 October 2008, the Group acquired 100% of the issued share capital of Chavis, which owns a 63.91% controlling interest in TerraWest Energy Corp. ("TWE"), a subsidiary of the Company. In connection with this acquisition, the Group had recognised an intangible asset amounting to HK$863,659,000 that related to the coalbed methane ("CBM") production sharing contract ("PSC") that TWE and China United Coalbed Methane Corporation Limited ("CUCBM") have entered into. Such intangible asset was amortised and an amortisation charge of HK$6,716,000 was recorded for the period from 1 August 2007 to 31 December 2008. Furthermore, pursuant to the sales and purchase agreement for the acquisition of Chavis, part of the consideration was settled by 93,600,000 new shares of the Company then to be issued. The fair value of the deferred share consideration was previously considered as a financial liability and was included in accrued liabilities and other payables as at 31 December 2008.

(i) Reclassification of intangible asset to oil and gas properties

The PSC provides TWE with the rights to explore and exploit CBM. Such rights to explore and exploit mineral deposits should be recognised based on their nature as either a tangible or intangible asset. The Directors are of the opinion that the mineral rights owned by the Group to explore, extract, and retain all or a portion of mineral deposits pursuant to the PSC should be more appropriately considered as tangible assets and included in the carrying value of oil and gas properties on the Group's balance sheet. Such rights had, however, been erroneously classified as intangible assets in the past. Accordingly, the Group has reclassified the value of the intangible assets to oil and gas properties at the date of acquisition.

(ii) Reversal of amortisation of intangible assets and its corresponding tax impact

In accordance with the Group's accounting policies on oil and gas properties (Note 4(d)), no depreciation is charged on the oil and gas properties during the exploration and evaluation phase. As a result, for the period from 1 August 2007 to 31 December 2008, the amortisation of intangible assets and the corresponding deferred tax impact previously recognised were reversed in connection with the adjustment per Note 3(b)(i).

(iii) Reclassification of deferred share consideration to equity

The deferred share consideration was classified as liability and was included in accrued liabilities and other payables as at 31 December 2008. As the number of shares to be issued for the deferred share consideration was fixed at the acquisition date, in accordance with HKAS 32, "Financial Instruments: Disclosure and Presentation", the issuance of 93,600,000 new shares should have been considered as equity in nature, and should not be remeasured subsequently. The adjustment reclassified the fair value of the deferred share consideration included in the accrued liabilities and other payables to equity.

3 CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

Note c: Errors in recognising directors' and management's bonus

Certain directors' and management's bonuses for the period from 1 August 2007 to 31 December 2008 were incorrectly recognised on a cash basis, and accordingly a provision had not been made for the bonus declared after 31 December 2008 but which met the definition of liability under HKAS 19, "Employee Benefits". The adjustment increased the administrative and operating expenses for the period ended 31 December 2008 to reflect the recognition of the bonus on an accrual basis, with a corresponding increase in the Group's accrued liabilities and other payables as at 31 December 2008.

The following is a summary of the effects or correction of errors on:

I the Group's consolidated income statement for the period from 1 August 2007 to 31 December 2008;

II the Group's consolidated statement of comprehensive income for the period from 1 August 2007 to 31 December 2008;

III the Group's consolidated balance sheet as at 31 December 2008; and

IV the Company's balance sheet as at 31 December 2008.

I Effect of correction of errors on the Group's consolidated income statement for the period from 1 August 2007 to 31 December 2008

	As previously reported	Note 3(a)(i)	Note 3(a)(ii)	Note 3(a)(iii)	Note 3(a)(iv)	Note 3(b)(i)	Note 3(b)(ii)	Note 3(b)(iii)	Note 3(c)	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	2,213	–	–	–	–	–	–	–	–	2,213
Cost of sales	(1,818)	–	–	–	–	–	–	–	–	(1,818)
Gross profit	395	–	–	–	–	–	–	–	–	395
Discount on acquisition	367,973	–	–	–	–	–	–	–	–	367,973
Impairment loss of goodwill	(199,380)	–	–	–	199,380	–	–	–	–	–
Administrative and operating expenses	(166,101)	–	–	–	–	–	6,716	–	(4,551)	(163,936)
Finance income	6,833	–	–	–	–	–	–	–	–	6,833
Share of profits less losses of:										
– jointly-controlled entity before impairment loss	4,754	–	–	(1,556)	–	–	–	–	–	3,198
– jointly-controlled entity's impairment loss	–	–	–	–	(227,802)	–	–	–	–	(227,802)
Profit/(loss) before taxation	14,474	–	–	(1,556)	(28,422)	–	6,716	–	(4,551)	(13,339)
Income tax	1,679	–	–	–	–	–	(1,679)	–	–	–
Profit/(loss) for the period	16,153	–	–	(1,556)	(28,422)	–	5,037	–	(4,551)	(13,339)
Attributable to:										
Equity holders of the Company	18,346	–	–	(1,556)	(28,422)	–	5,037	–	(4,551)	(11,146)
Minority interests	(2,193)	–	–	–	–	–	–	–	–	(2,193)
	16,153	–	–	(1,556)	(28,422)	–	5,037	–	(4,551)	(13,339)
Earnings/(loss) per share attributable to equity holders of the Company (expressed in HK cents per share)										
Basic and diluted	0.80	–	–	(0.07)	(1.24)	–	0.22	–	(0.20)	(0.49)

3 CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

II Effect of correction of errors on the Group's consolidated statement of comprehensive income for the period from 1 August 2007 to 31 December 2008

	As previously reported	Note 3(a)(i)	Note 3(a)(ii)	Note 3(a)(iii)	Note 3(a)(iv)	Note 3(b)(i)	Note 3(b)(ii)	Note 3(b)(iii)	Note 3(c)	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit/(loss) for the period	16,153	–	–	(1,556)	(28,422)	–	5,037	–	(4,551)	(13,339)
Loss on change in fair value of available-for-sale investment	(2,922)	–	–	–	–	–	–	–	–	(2,922)
Exchange differences arising from translation of foreign operations	(27,193)	–	–	–	–	–	(111)	–	–	(27,304)
Other comprehensive income/(loss) for the period, net of tax	(30,115)	–	–	–	–	–	(111)	–	–	(30,226)
Total comprehensive income/(loss) for the period	(13,962)	–	–	(1,556)	(28,422)	–	4,926	–	(4,551)	(43,565)
Attributable to:										
Equity holders of the Company	(1,259)	–	–	(1,556)	(28,422)	–	4,926	–	(4,551)	(30,862)
Minority interests	(12,703)	–	–	–	–	–	–	–	–	(12,703)
Total comprehensive income/(loss) for the period	(13,962)	–	–	(1,556)	(28,422)	–	4,926	–	(4,551)	(43,565)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

III Effect of correction of errors on the Group's consolidated balance sheet as of 31 December 2008

	As previously reported	Note 3(a)(i)	Note 3(a)(ii)	Note 3(a)(iii)	Note 3(a)(iv)	Note 3(b)(i)	Note 3(b)(ii)	Note 3(b)(iii)	Note 3(c)	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS										
Non-current assets										
Plant and equipment	4,198	–	–	–	–	–	–	–	–	4,198
Intangible assets	819,744	–	–	–	–	(819,744)	–	–	–	–
Oil and gas properties (formerly referred to as exploration and evaluation assets)	34,422	–	–	–	–	819,744	6,568	–	–	860,734
Goodwill	90,451	(93,712)	(196,119)	–	199,380	–	–	–	–	–
Interest in a jointly-controlled entity	9,817	93,712	196,119	(1,556)	(227,802)	–	–	–	–	70,290
Available-for-sale investment	659	–	–	–	–	–	–	–	–	659
Club memberships	2,370	–	–	–	–	–	–	–	–	2,370
	961,661	–	–	(1,556)	(28,422)	–	6,568	–	–	938,251
Current assets										
Trade receivables	86	–	–	–	–	–	–	–	–	86
Deposits, prepayments and other receivables	4,895	–	–	–	–	–	–	–	–	4,895
Amount due from a jointly-controlled entity	14,694	–	–	–	–	–	–	–	–	14,694
Bank balances and cash	133,740	–	–	–	–	–	–	–	–	133,740
	153,415	–	–	–	–	–	–	–	–	153,415
Total assets	1,115,076	–	–	(1,556)	(28,422)	–	6,568	–	–	1,091,666
EQUITY										
Capital and reserves attributable to equity holders of the Company										
Share capital	5,842	–	–	–	–	–	–	–	–	5,842
Share premium and reserves	625,058	–	–	(1,556)	(28,422)	–	4,926	8,424	(4,551)	603,879
	630,900	–	–	(1,556)	(28,422)	–	4,926	8,424	(4,551)	609,721
Minority interests	231,302	–	–	–	–	–	–	–	–	231,302
Total equity	862,202	–	–	(1,556)	(28,422)	–	4,926	8,424	(4,551)	841,023
LIABILITIES										
Non-current liabilities										
Deferred tax liabilities	204,936	–	–	–	–	–	1,642	–	–	206,578
Current liabilities										
Trade payables	12,251	–	–	–	–	–	–	–	–	12,251
Accrued liabilities and other payables	35,607	–	–	–	–	–	–	(8,424)	4,551	31,734
Amount due to a director	80	–	–	–	–	–	–	–	–	80
	47,938	–	–	–	–	–	–	(8,424)	4,551	44,065
Total liabilities	252,874	–	–	–	–	–	1,642	(8,424)	4,551	250,643
Total equity and liabilities	1,115,076	–	–	(1,556)	(28,422)	–	6,568	–	–	1,091,666
Net current assets	105,477	–	–	–	–	–	–	8,424	(4,551)	109,350
Total assets less current liabilities	1,067,138	–	–	(1,556)	(28,422)	–	6,568	8,424	(4,551)	1,047,601

3 CORRECTION OF PRIOR PERIOD ERRORS *(CONTINUED)*

IV Effect of correction of errors on the Company's balance sheet as of 31 December 2008

	As previously reported	Note 3(a)(i)	Note 3(a)(ii)	Note 3(a)(iii)	Note 3(a)(iv)	Note 3(b)(i)	Note 3(b)(ii)	Note 3(b)(iii)	Note 3(c)	As restated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS										
Non-current assets										
Plant and equipment	1,469	–	–	–	–	–	–	–	–	1,469
Investments in subsidiaries	293,831	–	–	–	–	–	–	–	–	293,831
Available-for-sale investment	659	–	–	–	–	–	–	–	–	659
	295,959	–	–	–	–	–	–	–	–	295,959
Current assets										
Amounts due from subsidiaries	102,837	–	–	–	–	–	–	–	–	102,837
Deposits, prepayments and other receivables	1,142	–	–	–	–	–	–	–	–	1,142
Bank balances and cash	117,393	–	–	–	–	–	–	–	–	117,393
	221,372	–	–	–	–	–	–	–	–	221,372
Total assets	517,331	–	–	–	–	–	–	–	–	517,331
EQUITY										
Capital and reserves										
Share capital	5,842	–	–	–	–	–	–	–	–	5,842
Share premium and reserves	499,414	–	–	–	–	–	–	8,424	(4,551)	503,287
Total equity	505,256	–	–	–	–	–	–	8,424	(4,551)	509,129
LIABILITIES										
Current liabilities										
Accrued liabilities and other payables	12,065	–	–	–	–	–	–	(8,424)	4,551	8,192
Amount due to a subsidiary	10	–	–	–	–	–	–	–	–	10
	12,075	–	–	–	–	–	–	(8,424)	4,551	8,202
Total liabilities	12,075	–	–	–	–	–	–	(8,424)	4,551	8,202
Total equity and liabilities	517,331	–	–	–	–	–	–	–	–	517,331
Net current assets	209,297	–	–	–	–	–	–	8,424	(4,551)	213,170
Total assets less current liabilities	505,256	–	–	–	–	–	–	8,424	(4,551)	509,129

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The 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 costs 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, irrespective of the extent of any minority interest. 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 the income statement.

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

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.

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

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(a) Consolidation *(Continued)*

(ii) Transactions with minority interests

The Group treats transactions with minority interests as transactions with equity holders of the Company. For purchases of interests in subsidiary from minority shareholders, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of interests in a subsidiary to minority shareholders, where the Company retains control in the subsidiary, are also recorded in equity.

(iii) Jointly-controlled entity

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

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

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

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

(b) Segment reporting

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

(c) Plant and equipment

Plant and equipment are stated at historical cost less depreciation.

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Plant and equipment *(Continued)*

Gain or loss arising on disposals of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognised within "Other (losses)/gains, net" in the consolidated income statement in the period in which the item is derecognised.

(d) Oil and gas properties (formerly known as exploration and evaluation assets)

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

No depreciation is charged during the exploration and evaluation phase.

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

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

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

(e) Club memberships

Club memberships with indefinite useful life are stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club memberships have suffered an impairment loss. The rights of the club memberships are not transferrable.

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

(f) Impairment loss of investments in subsidiaries, jointly-controlled entity and non-financial assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense in the income statement immediately.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Financial assets

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

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

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

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

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

(iv) Recognition and measurement

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

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) Impairment of financial assets

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

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

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

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

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

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

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

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

(i) Bank balances and cash

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

(j) Share capital

Ordinary shares are classified as equity.

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

(k) Trade payables

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Current and deferred tax

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

The tax currently payable is based on taxable profit for the 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 at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income.

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

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

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

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

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

(m) Employee benefits

(i) Paid leave carried forward

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

(ii) Pension scheme

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(m) Employee benefits *(Continued)*

(ii) Pension scheme (Continued)

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

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

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

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

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

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

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

(v) Bonus plans

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

(n) Provisions

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

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

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

(o) Leases

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(p) Foreign currencies

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

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

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

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

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

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

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

(iii) all resulting exchange differences are recognised in the translation reserve.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Revenue recognition

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

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

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

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

(r) Application of new and revised HKFRSs

(i) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRSs as of 1 January 2009:

HKAS 1 (Revised) "Presentation of financial statements" – effective 1 January 2009
The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements, an income statement and a statement of comprehensive income. Comparative information has been re-presented so that it conforms to the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

HKFRS 7 "Financial Instruments – Disclosures" (Amendment) – effective 1 January 2009
The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

HKFRS 2 (Amendment) – "Share-based payment" – effective 1 January 2009
The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and the Company have adopted HKFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's or the Company's financial statements.

HKFRS 8 – "Operating segments" ("HKFRS 8") – effective 1 January 2009
HKFRS 8 replaces HKAS 14, "Segment reporting", where it requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes, that is more consistent with the internal reporting provided to the chief operating decision-maker. Adoption of this standard did not have any effect on the Group's results.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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

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

HKAS 24 (Revised)(2)	Related Party Disclosures
HKAS 27 (Revised)(3)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)(2)	Financial Instruments: Presentation – Classification of Right Issues
HKAS 39 (Amendment)(1)	Eligible Hedged Items
HKFRS 1 (Revised)(2)	First-Time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 (Revised)(1)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)(1)	Business Combinations
HKFRS 9(3)	Financial Instruments
HK(IFRIC) – Int 9 and HKAS 39 (Amendment)(1)	Embedded Derivatives
HK(IFRIC) – Int 14 (Amendments)(2)	HKAS 39 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction
HK(IFRIC) – Int 17(1)	Distributions of Non-cash Assets to Owners
HK(IFRIC) – Int 19(2)	Extinguishing Financial Liabilities with Equity Instruments
HK Interpretation 4 (Amendments)(1)	Leases – Determination of the Length of Lease Term in Respect of Hong Kong Land Leases

1 Effective for annual periods beginning on or after 1 January 2010

2 Effective for annual periods beginning on or after 1 July 2011

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

The adoption 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. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

The adoption of HKAS 27 (Revised) prescribes the accounting treatment for changes in a parent's ownership interest in a subsidiary. The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The existing Group accounting policy for transactions with minority interest, when there is no change in control, has already complied with HKAS 27 (Revised). The Group will apply the other new changes of HKAS 27 (Revised) from 1 January 2010.

5 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

(a) Estimation of oil and gas reserves

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

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

(b) Recognition of oil and gas properties

The fair values of the acquired oil and gas properties have been arrived at on the basis of valuations carried out by Vigers and a technical assessment report issued by Norwest Corporation ("Norwest") for the TWE acquisition (see Note 35) and Gaffney, Cline & Associates ("GCA") for the Qian An acquisition (see Note 35). Both the valuer and the technical advisors are not connected with the Group and with appropriate qualifications and relevant experiences in the industry. The valuations conformed to the general guidance as stated in HKFRS 3 on determining the fair values of the oil and gas properties acquired in business combinations. The fair values of the oil and gas properties as at the acquisition date were arrived at by income approach valuation methodology.

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

The Group has recognised a profit of HK$367,973,000 arising from the acquisition of TWE during the period ended 31 December 2008. The profit is primarily attributable to the oil and gas properties of TWE. In determining the fair values of the oil and gas properties of TWE, the Group has applied a discount rate of 20.3% and assumed the realised gas price would be growing at an average annual rate of 3.0%. If the discount rate used for the determination of the fair value of the oil and gas properties of TWE had been 1% higher/lower and all other variables were held constant, the post-tax profit arising from the acquisition of TWE for the period ended 31 December 2008 would decrease/increase by approximately HK$80,974,000. If the average annual growth rate of the realised gas price used for the determination of the fair value of the oil and gas properties of TWE had been 1% lower/higher and all other variables were held constant, the post-tax profit arising the acquisition of TWE for the period ended 31 December 2008 would decrease/increase by approximately HK$16,018,000.

5 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(c) Estimated impairment of assets

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

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

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

In 2008, the Group engaged BMI and Vigers to perform a valuation of the interest in a jointly-controlled entity as at 31 December 2008 and recognised an impairment loss of the interest in a jointly-controlled entity of HK$227,802,000. The loss in the period ended 31 December 2008 was primarily attributable to the decrease in the value in use of the Qian An Oil and Gas Properties since the date of acquisition. In 2009, the Group engaged Vigers to perform a valuation of the interest in a jointly-controlled entity as at 31 December 2009 and recognised additional impairment loss of the interest in a jointly-controlled entity of HK$59,748,000.

In determining the recoverable value of the Qian An Oil and Gas Properties as of 31 December 2009, the Group has applied a discount rate of 15.9% (2008: 8.6%) and assumed the realised oil price would be growing at a compound annual growth rate of 7.2% (2008: 20.8%). If the discount rate used for the determination of the recoverable value of the Qian An Oil and Gas Properties had been 1% higher/lower with all other variables held constant, the Group's impairment loss of the interest in a jointly-controlled entity for the year ended 31 December 2009 would increase/decrease by approximately HK$612,000 (for the period ended 31 December 2008: increase/decrease of HK$4,240,000). If the compound annual growth rate for realised oil price used for the determination of the recoverable value of the Qian An Oil and Gas Properties had been 1% lower/higher with all other variables held constant, the Group's impairment loss of the interest in a jointly-controlled entity for the year ended 31 December 2009 would increase/decrease by approximately HK$811,000 (for the period ended 31 December 2008: increase/decrease by approximately HK$4,250,000).

5 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(c) Estimated impairment of assets *(Continued)*

For the oil and gas properties of TWE, the Group has considered the following indicators to determine if it was required to assess the impairment of the carrying value of the properties as at 31 December 2008 and 31 December 2009:

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

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

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

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

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

Based on the consideration of the indicators above, management concludes that an impairment test on the oil and gas properties of TWE is not necessary.

(d) Valuation of share options granted

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

(e) Funding availability

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

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. Capital as at 31 December 2009 amounted to HK$555,536,000 (2008: HK$609,721,000).

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

7 FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, trade receivables, other receivables, deposits, amount due 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.

(i) Currency risk

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

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

	31 December 2009 HK$'000	31 December 2008 HK$'000
Financial assets		
Bank balances and cash	**9,397**	18,239
Financial asset at fair value through profit or loss	**3,934**	–
Amount due from a jointly-controlled entity	**19,401**	14,694
Deposits, prepayments and other receivables	**328**	3,099
	33,060	36,032
Financial liabilities		
Trade payables	**12,129**	9,126
Accrued liabilities and other payables	**18,689**	18,642
	30,818	27,768

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

At 31 December 2009, if the Hong Kong dollar had weakened/strengthened by 10% against the CAD with all other variables held constant, post-tax profit for the year would have been HK$485,000 (2008: HK$1,361,000) lower/higher.

(ii) Interest rate risk

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

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances at the balance sheet date. The analysis is prepared assuming the relevant assets outstanding at the balance sheet date were outstanding for that whole year. If interest rates had been 1% higher/lower and all other variables were held constant, the loss for the year ended 31 December 2009 would decrease/increase by approximately HK$784,000 (for the period from 1 August 2007 to 31 December 2008: approximately HK$1,171,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 FINANCIAL INSTRUMENTS *(CONTINUED)*

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

(iii) Other price risk

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

(iv) Oil and gas price risk

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

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

(v) Credit risk

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

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

(vi) Liquidity risk management

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

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

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

7 FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 FINANCIAL INSTRUMENTS *(CONTINUED)*

(c) Categories of financial instruments

	As at 31 December 2009 HK$'000	As at 31 December 2008 HK$'000
Financial assets		
Loans and receivables		
Trade receivables	14	86
Deposits and other receivables	1,135	4,645
Amount due from a jointly-controlled entity	19,401	14,694
Bank balances and cash	79,513	133,740
Financial asset at fair value through profit or loss	3,934	–
Available-for-sale investment	1,411	659
	105,408	153,824
Financial liabilities		
Trade payables	13,607	12,251
Accrued liabilities and other payables	27,283	31,734
Amount due to a director	–	80
	40,890	44,065

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

8 SEGMENT INFORMATION

The Group adopted HKFRS 8 from 1 January 2009. Adoption of this standard did not have any effect on the Group's results of operations or financial position. With the adoption of HKFRS 8, the Group has re-assessed the operating segments compared to the business segments previously identified under HKAS 14, based upon the information reported internally to the Group's chief operating decision maker, the CEO.

In a manner consistent with the way in which information is reported internally to the CEO, the Group has presented the following reportable segments:

(i) TWE - Exploration, development and production of coalbed methane ("CBM") and natural gas in the PRC

(ii) Qian An - Exploration, development and production of petroleum in the PRC

(iii) Information technology related services in Hong Kong

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

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

(b) Segment liabilities include all liabilities except for amount due to a director, deferred tax liabilities and other unallocated corporate liabilities.

8 SEGMENT INFORMATION *(CONTINUED)*

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

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

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

8 SEGMENT INFORMATION *(CONTINUED)*

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

	As restated			
	Information technology related services in Hong Kong	Oil and gas exploration in China		Consolidated
		Qian An	TWE	
	HK$'000	HK$'000	HK$'000	HK$'000
From 1 August 2007 to 31 December 2008, as restated				
Segment revenue	2,213	–	–	2,213
Gross profit	395	–	–	395
Discount on acquisition	–	–	367,973	367,973
Administrative and operating expenses	(4,683)	–	(1,068)	(5,751)
Share of profits less losses of:				
– jointly-controlled entity before impairment loss	–	3,198	–	3,198
– jointly-controlled entity's impairment loss	–	(227,802)	–	(227,802)
Segment results	(4,288)	(224,604)	366,905	138,013
Unallocated:				
Administrative and operating expenses				(158,185)
Finance income				6,833
Loss before taxation				(13,339)
Income tax				–
Loss for the period				(13,339)
As at 31 December 2008				
Segment assets	720	84,984	867,803	953,507
Unallocated assets				138,159
Total assets				1,091,666
Segment liabilities	696	–	222,023	222,719
Unallocated liabilities				27,924
Total liabilities				250,643

8 SEGMENT INFORMATION *(CONTINUED)*

	Information technology related services in Hong Kong	Oil and gas exploration in China		Unallocated	Consolidated
		Qian An	TWE		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
From 1 August 2007 to 31 December 2008, as restated					
Capital additions	320	–	18,742	4,910	23,972

The Group's revenue for both the year ended 31 December 2009 and the period from 1 August 2007 to 31 December 2008, is solely derived from its information technology related services segment in Hong Kong.

The Group's non-current assets other than available-for-sale investment, as at 31 December 2009 and 2008 are further analysed as follows:

	31 December 2009 HK$'000	As restated 31 December 2008 HK$'000
Hong Kong (place of domicile)	5,882	6,568
China	1,024,945	931,024
	1,030,827	937,592
Available-for-sale investment	1,411	659
Total non-current assets	1,032,238	938,251

9 REVENUE

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

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

	Year ended 31 December 2009 HK$'000	Period from 1 August 2007 to 31 December 2008 HK$'000
Sale of computer hardware and software	279	521
Network infrastructure maintenance and other services	31	1,692
	310	2,213

10 LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging share of profits less losses of jointly-controlled entity and the following:

	Year ended 31 December 2009 HK$'000	As restated Period from 1 August 2007 to 31 December 2008 HK$'000
Cost of inventories sold	242	447
Cost of services provided (Note)	4	1,371
Depreciation of plant and equipment	1,452	1,033
Write off of equipment	–	219
Auditor's remuneration	1,500	880
Operating lease payments	2,810	2,306
Legal and professional fees		
– Cash payments	2,370	67,697
– Share-based payments	2,500	32,544
Investor relationship expenses	3,930	3,891
Staff costs, including Directors' emoluments (Note 12)		
– Salaries, allowances and other benefits	18,929	22,240
– Retirement benefit scheme contributions	151	252
– Share-based payments	1,979	324
– Discretionary and performance related incentive payments	2,989	15,061
Exchange gain/(loss), net	2,065	(4,610)

Note: The cost of services provided includes approximately HK$4,000 (For the period from 1 August 2007 to 31 December 2008: HK$747,000) relating to staff costs, which are also included in the total amounts of staff costs disclosed separately above.

11 FINANCE INCOME

	Year ended 31 December 2009 HK$'000	Period from 1 August 2007 to 31 December 2008 HK$'000
Bank interest income	42	6,833

12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments for the year ended 31 December 2009 and for the period from 1 August 2007 to 31 December 2008, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

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

For the period from 1 August 2007 to 31 December 2008	Directors' fees	Salaries, allowance and other benefits	As restated Employer's contribution to pension scheme	Share-based payments	Discretionary bonuses (Note)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Name of Directors						
Executive Directors						
Mr. Chan Wing Him Kenny	–	9,801	17	16	9,950	19,784
Mr. Chan Man Ching (resigned on 12 June 2008)	–	1,344	11	–	2,060	3,415
Dr. Arthur Ross Gorrell (appointed as non-executive director on 1 December 2007 and re-designated as executive director on 2 June 2008)	48	112	–	16	–	176
Independent non-executive Directors						
Mr. David Tsoi (appointed on 8 July 2008)	58	–	–	–	–	58
Mr. Poon Lai Yin, Michael (resigned and re-designated as chief financial officer on 8 July 2008)	110	–	–	16	–	126
Mr. Lo Chi Kit	85	–	–	–	–	85
Mr. Tam Hang Chuen	85	–	–	–	–	85
Total	386	11,257	28	48	12,010	23,729

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.

12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

For the year ended 31 December 2009, 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 (for the period from 1 August 2007 to 31 December 2008, as restated: Nil).

For the year ended 31 December 2009, there was no arrangement under which the Directors waived or agreed to waive any emoluments (for the period from 1 August 2007 to 31 December 2008, as restated: Nil).

During the year ended 31 December 2009, one (for the period from 1 August 2007 to 31 December 2008: two) of the five individuals with the highest emoluments in the Group was Director whose emoluments are disclosed in the table above. Details of the emoluments of the remaining four (for the period from 1 August 2007 to 31 December 2008: three) individuals are as follows:

	Year ended 31 December 2009 HK$'000	Period from 1 August 2007 to 31 December 2008 HK$'000
Salaries, allowances and other benefits	**6,181**	4,093
Retirement benefit scheme contributions	**35**	24
Share-based payments	**1,357**	266
Discretionary and performance related incentive payments	**571**	2,780
	8,144	7,163

The emoluments were within the following bands:

	Number of employees	
	Year ended 31 December 2009	Period from 1 August 2007 to 31 December 2008
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**2**	–
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,000 to HK$4,500,000	**–**	1
	4	3

During the year ended 31 December 2009, no emolument was paid to the five highest paid individuals (including both the Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office (for the period from 1 August 2007 to 31 December 2008: Nil).

13 INCOME TAX

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

No Hong Kong profits tax has been provided as the Group did not have any assessable profits in Hong Kong for the year ended 31 December 2009 (for the period from 1 August 2007 to 31 December 2008: Nil).

PRC Enterprise Income Tax has not been provided for the subsidiaries in the PRC as they did not generate any assessable profits during the year ended 31 December 2009 (for the period from 1 August 2007 to 31 December 2008: Nil).

Tax under the Income Tax Act (Canada) has not been provided as TWE, the Company's non wholly-owned subsidiary incorporated under the laws of British Columbia, Canada, has been reporting tax loss since its incorporation.

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

	Year ended 31 December 2009 HK$'000	As restated (Note 3) Period from 1 August 2007 to 31 December 2008 HK$'000
Loss for the year/period	**(107,525)**	(13,339)
Tax at the domestic income tax rate of 16.5% (2008: 16.5%)	**(17,742)**	(2,201)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(618)**	(43)
Tax effect of:		
– discount on acquisition	**–**	(60,716)
– income not subject to tax	**(7)**	(1,128)
– expenses not deductible for tax	**16,499**	63,368
– unrecognised tax losses	**1,868**	720
Income tax	**–**	–

The Group has unrecognised deferred tax assets from estimated tax losses of approximately HK$8,014,000 (2008: HK$6,146,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Included in unrecognised tax losses are losses arising from the subsidiaries in the PRC of approximately HK$345,000 (2008: HK$30,000) that will expire in five years from the respective year of loss. Also included in unrecognised tax losses are losses relating to Hong Kong operations of approximately HK$3,425,000 (2008: HK$3,085,000) that has no expiry date. The remaining unrecognised tax losses could be carried forward for seven to twenty years.

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2009 (for the period from 1 August 2007 to 31 December 2008: Nil).

14 DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2009 (for the period from 1 August 2007 to 31 December 2008: Nil), nor has any dividend been proposed since the respective reporting period.

15 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$368,625,000 (2008: HK$128,190,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 LOSS PER SHARE

(a) Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year ended 31 December 2009 and the period from 1 August 2007 to 31 December 2008.

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

	Year ended 31 December 2009 HK$'000	As restated Period from 1 August 2007 to 31 December 2008 HK$'000
Loss attributable to equity holders of the Company for the purpose of basic loss per share (HK$'000)	**(106,595)**	(11,146)
Weighted average number of ordinary shares for the purpose of basic loss per share ('000)	**2,337,737**	2,285,644
Basic loss per share (in HK cents)	**(4.56)**	(0.49)

The weighted average number of shares for the year ended 31 December 2009 is approximately 2,337,737,000 (for the period from 1 August 2007 to 31 December 2008: approximately 2,285,644,000, which is calculated as if the share subdivision for each share of par value of HK$0.005 into two subdivided shares of par value of HK$0.0025 each on 29 August 2007 had been completed before the beginning of the period).

(b) The Group had share options and warrants (issued by TWE) outstanding as at 31 December 2008 and 31 December 2009. The share options and warrants did not have a dilutive effect on loss per share (2008: anti-dilutive).

17 PLANT AND EQUIPMENT

Group	Leasehold improvements HK$'000	Computer equipment and software HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 August 2007	739	1,287	166	294	–	2,486
Exchange differences	–	10	–	2	–	12
Additions	1,020	309	468	79	3,354	5,230
Acquisition of a subsidiary (Note 35)	–	19	–	6	–	25
Disposals	–	(11)	–	–	(331)	(342)
Write off	(739)	(751)	(109)	(209)	–	(1,808)
At 31 December 2008	1,020	863	525	172	3,023	5,603
Exchange differences	–	–	–	–	–	–
Additions	140	101	–	11	533	785
Disposals	–	(12)	–	–	–	(12)
At 31 December 2009	**1,160**	**952**	**525**	**183**	**3,556**	**6,376**
Accumulated depreciation						
At 1 August 2007	467	1,188	72	235	–	1,962
Exchange differences	–	7	–	2	–	9
Depreciation for the period	428	121	84	40	360	1,033
Disposals	–	(3)	–	–	(7)	(10)
Write off	(591)	(731)	(64)	(203)	–	(1,589)
At 31 December 2008	304	582	92	74	353	1,405
Exchange differences	–	–	–	–	–	–
Depreciation for the year	404	128	100	30	790	1,452
Disposals	–	(12)	–	–	–	(12)
At 31 December 2009	**708**	**698**	**192**	**104**	**1,143**	**2,845**
Carrying values						
At 31 December 2009	**452**	**254**	**333**	**79**	**2,413**	**3,531**
At 31 December 2008	716	281	433	98	2,670	4,198

17 PLANT AND EQUIPMENT *(CONTINUED)*

Company	Leasehold improvements	Computer equipment and software	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost						
At 1 August 2007	–	72	51	65	–	188
Additions	1,020	87	401	11	462	1,981
Disposals	–	(13)	–	–	–	(13)
Write off	–	(36)	(29)	(43)	–	(108)
At 31 December 2008	1,020	110	423	33	462	2,048
Additions	–	20	–	7	–	27
At 31 December 2009	**1,020**	**130**	**423**	**40**	**462**	**2,075**
Accumulated depreciation						
At 1 August 2007	–	46	41	54	–	141
Depreciation for the period	305	38	48	14	144	549
Disposals	–	(3)	–	–	–	(3)
Write off	–	(36)	(29)	(43)	–	(108)
At 31 December 2008	305	45	60	25	144	579
Depreciation for the year	340	37	80	4	115	576
At 31 December 2009	**645**	**82**	**140**	**29**	**259**	**1,155**
Carrying values						
At 31 December 2009	**375**	**48**	**283**	**11**	**203**	**920**
At 31 December 2008	715	65	363	8	318	1,469

18 OIL AND GAS PROPERTIES – GROUP

	Year ended 31 December 2009 HK$'000	As restated For the period from 1 August 2007 to 31 December 2008 HK$'000
At cost		
At beginning of the year/period	860,734	–
Acquisition of a subsidiary (Note 35)	–	880,895
Additions	15,693	18,742
Exchange differences	145,789	(38,903)
At end of the year/period	1,022,216	860,734

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

18 OIL AND GAS PROPERTIES – GROUP *(CONTINUED)*

Through the acquisition of 63.91% controlling interests in TWE on 13 October 2008 (Note 35), 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 on 30 December 2005. The administration of the PSC was transferred to PetroChina Coalbed Methane Company Ltd. during 2009.

Pursuant to the PSC, TWE, as a foreign contractor shall 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 in co-operation with foreign parties.

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

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 at the exploration stage.

19 INVESTMENTS IN SUBSIDIARIES – COMPANY

	31 December 2009 HK$'000	As restated 31 December 2008 HK$'000
Unlisted shares, at cost	**372,680**	372,680
Provision for impairment loss	**(372,680)**	(78,849)
	–	293,831

Details of the subsidiaries held by the Company as at 31 December 2009 are as follows:

Name	Place of incorporation and kind of legal entity	Nominal value of issued shares/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities and place of operation
Sys Solutions (BVI) Limited	British Virgin Islands ("BVI"), limited liability company	US$10,000 ordinary	100	–	Investment holding in Hong Kong
Allied Resources	Hong Kong, limited liability company	HK$1 ordinary	100	–	Investment holding in Hong Kong
Rich Concept Technology Limited	BVI, limited liability company	US$10,000 ordinary	100	–	Investment holding in Hong Kong
Sys Solutions (China) Limited*	Hong Kong, limited liability company	HK$1,000,000 ordinary	–	100	Under de-registration

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INVESTMENTS IN SUBSIDIARIES – COMPANY *(CONTINUED)*

Name	Place of incorporation and kind of legal entity	Nominal value of issued shares/ paid-up capital	Percentage of equity attributable to the Company		Principal activities and place of operation
			Direct	Indirect	
Jilin Hengli Industries Liability Co., Ltd.#	PRC, limited liability company	Renminbi ("RMB") 12,155,800	–	100	Investment holding in the PRC
Chavis	BVI, limited liability company	1 ordinary with no par value	–	100	Investment holding in Hong Kong
TWE	British Columbia, Canada, limited liability company	CAD 5,967,000 common stock with no par value	–	61.07	CBM and natural gas exploration and development in the PRC
		CAD 3,771,603 preferred stock with no par value			
Sys Solutions Limited	Hong Kong, limited liability company	HK$1,000,000 ordinary	–	100	Provision of network infrastructure solutions and services in Hong Kong
Sys Solutions GlobalSoft Limited	Hong Kong, limited liability company	HK$10,000 ordinary	–	100	Under de-registration
China Enviro Energy Holdings Limited	Hong Kong, limited liability company	HK$1 ordinary	–	100	Inactive in Hong Kong
Basic Corporation Limited	Hong Kong, limited liability company	HK$1 ordinary	–	100	Membership holding in Hong Kong
Sun Ray (China) Limited	Hong Kong, limited liability company	HK$1 ordinary	–	100	Vehicle holding in Hong Kong
Dragon Bounty Company Limited ("Dragon Bounty")	BVI, limited liability company	US$1 ordinary	–	100	Investment holding in Hong Kong
Aces Diamond Holdings Limited ("Aces Diamond")	BVI, limited liability company	US$1 ordinary	100	–	Investment holding in Hong Kong
CCST Singapore Pte. Ltd.	Singapore, limited liability company	S$10,000 ordinary	–	100	Environmental projects in South East Asia
Aces Diamond International Limited	BVI, limited liability company	US$1 ordinary	–	100	Investment holding in Hong Kong

Wholly-owned foreign enterprises established in the PRC.

* The company has been deregistered on 12 March 2010.

19 INVESTMENTS IN SUBSIDIARIES – COMPANY *(CONTINUED)*

Common shares, preferred shares and warrants in TWE

TWE has 93 million outstanding warrants as at 31 December 2009 (2008: 53 million warrants). Upon the full conversion of all outstanding warrants of TWE, the Group would hold approximately 65.48% controlling interest of the enlarged capital. TWE will remain a subsidiary of the Group after the full conversion of all outstanding warrants.

	Number of common shares with no par value		Number of preferred shares with no par value		Number of warrants	
	As at 31 December 2009 '000	As at 31 December 2008 '000	As at 31 December 2009 '000	As at 31 December 2008 '000	As at 31 December 2009 '000	As at 31 December 2008 '000
Authorised:						
At the beginning and end of year/period	100,000	100,000	100,000	100,000		
Issued and outstanding:						
At the beginning of year/period						
Common shares and preferred shares of no par value	161,000	161,000	8,000	8,000	53,000	53,000
Issue of new shares upon exercise of warrants on 11 February 2009 (i)	16,667	–	–	–	(16,667)	–
Issue of new shares and warrants on 17 August 2009 (ii)	40,000	–	–	–	80,000	–
Issue of new shares upon exercise of warrants on 1 November 2009 (iii)	16,667	–	–	–	(16,667)	–
Lapse of warrants (iv)					(6,666)	
As at end of year/period	234,334	161,000	8,000	8,000	93,000	53,000

Notes:

(i) On 11 February 2009, Petromin Resources Limited ("Petromin"), a related company, exercised 16,666,667 warrants at an exercise price of CAD0.03 per warrant to subscribe for 16,666,667 common shares of TWE (Note 36(a)(vi)).

(ii) On 17 August 2009, the Company, through a wholly-owned subsidiary, subscribed for 40,000,000 common shares of TWE, 40,000,000 A warrants at an exercise price of CAD0.10 per common share of TWE and 40,000,000 B warrants at an exercise price of CAD0.15 per common share of TWE, for an aggregate subscription price of CAD2,000,000. Each A warrant and B warrant entitles the holder to purchase one common share of TWE within two to three years, respectively, following the date of issuance of such warrants (Note 36(a)(vi)).

(iii) On 1 November 2009, Petromin exercised 16,666,667 warrants at an exercise price of CAD0.03 per warrant to subscribe for 16,666,667 common shares of TWE (Note 36(a)(vii)).

(iv) On 5 November 2009, 6,666,666 warrants with an exercise price of CAD0.03 expired.

19 INVESTMENTS IN SUBSIDIARIES – COMPANY *(CONTINUED)*

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

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

	Outstanding ('000) at 31 December		Exercise price (CAD per share) at 31 December	
	2009	2008	**2009**	2008
A Warrant	**40,000**	–	**0.10**	–
B Warrant	**40,000**	–	**0.15**	–
Other warrants	**13,000**	53,000	**0.03**	0.03
	93,000	53,000		

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

For the period from 13 October 2008, the date of acquisition of TWE, to 17 August 2009, the Group did not hold more than 50% interest in TWE (including the consideration of potential voting rights), but the Directors considered the Group had control over TWE's Board of Directors and the operating and financial policies of TWE. As a result, TWE has been accounted for as a subsidiary of the Group since the date of acquisition.

None of the subsidiaries had issued any debt securities during the year ended 31 December 2009 and at the end of the year.

20 AMOUNTS DUE FROM/(TO) SUBSIDIARIES – COMPANY

	31 December 2009 HK$'000	As restated 31 December 2008 HK$'000
Cost	**119,984**	102,827
Provision for impairment loss	**(39,977)**	–
	80,007	102,827

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

21 INTEREST IN A JOINTLY-CONTROLLED ENTITY – GROUP

	As at 31 December 2009 HK$'000	As restated As at 31 December 2008 HK$'000
Unlisted shares, at cost (Note 35)	**298,401**	298,401
Share of post-acquisition losses and other comprehensive, net of dividends	**(8,141)**	(309)
Less: Impairment losses recognised	**(287,550)**	(227,802)
	2,710	70,290

Included in the cost of the interest in a jointly-controlled entity was goodwill amounting to HK$196,119,000 arising from the acquisition of Qian An, which was fully impaired as at both 31 December 2009 and 2008.

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

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

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

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

	31 December 2009 HK$'000	As restated 31 December 2008 HK$'000
Assets		
Non-current assets	**34,752**	95,650
Current assets	**6,993**	7,158
	41,745	102,808
Liabilities		
Current liabilities	**(37,223)**	(30,104)
Non-current liabilities	**(1,812)**	(2,414)
	(39,035)	(32,518)
Net assets	**2,710**	70,290

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 INTEREST IN A JOINTLY-CONTROLLED ENTITY – GROUP *(CONTINUED)*

	Year ended 31 December 2009 HK$'000	As restated Period from 1 August 2007 to 31 December 2008 HK$'000
Income	**25,388**	36,012
Expenses before impairment loss	**(28,667)**	(32,814)
Impairment loss	**(59,748)**	(227,802)
Net loss	**(63,027)**	(224,604)

At 31 December 2009 and 2008, the Group carried out reviews of the recoverable amount of its interest in Qian An, having regard to the decline in international oil price and the change in market conditions since the Group acquired its interest in Qian An. The reviews led to the recognition of an impairment loss of HK$59,748,000 for the year ended 31 December 2009 (for the period from 1 August 2007 to 31 December 2008: HK$227,802,000), which has been recognised in the income statement. The recoverable amount of Qian An has been determined on the basis of their value in use. The impairment assessments were based upon the cash flow forecasts derived from the most recent financial budgets approved by management. The discount rate used in the forecast as of 31 December 2009 was 15.9%, and the forecast has assumed the realised oil price to grow at compound annual growth rate of 7.2%. The forecast as of 31 December 2008 was prepared based upon information available at that time, using discount rate of 8.6% and assumed the realised oil price to grow at compound annual growth rate of 20.8%.

The impairment loss has been included in the "Share of results of a jointly-controlled entity" line item in the consolidated income statement.

As at 31 December 2009, there were no contingent liabilities related to the Group's interest in a jointly-controlled entity and no contingent liabilities of the jointly-controlled entity itself (2008: Nil).

22 AMOUNT DUE FROM A JOINTLY-CONTROLLED ENTITY

	As at 31 December 2009 HK$'000	As at 31 December 2008 HK$'000
Amount due from a jointly-controlled entity	**10,865**	10,809
Dividend receivable from a jointly-controlled entity	**8,536**	3,885
	19,401	14,694

Amounts due and dividend receivable from a jointly-controlled entity are unsecured, interest free, denominated in RMB and have no fixed terms of repayment.

23 AVAILABLE-FOR-SALE INVESTMENT – GROUP AND COMPANY

	Year ended 31 December 2009 HK$'000	Period 1 August 2007 to 31 December 2008 HK$'000
At beginning of the year/period	**659**	–
Addition	**–**	3,581
Fair value change	**752**	(2,922)
At end of the year/period	**1,411**	659

Available-for-sale investment comprises:

	31 December 2009 HK$'000	31 December 2008 HK$'000
Listed securities, reporting as non-current assets:		
– Equity securities – listed overseas	**1,411**	659
Market value of listed securities	**1,411**	659

The equity securities represented approximately 3% equity interests in Petromin Resources Ltd ("Petromin"), a related company of the Group (Note 36(a)). Petromin is principally engaged in petroleum and natural gas exploration and production in Canada, the PRC and Kuwait.

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

24 TRADE RECEIVABLES – GROUP

	As at 31 December 2009 HK$'000	As at 31 December 2008 HK$'000
Trade receivables	**14**	94
Less: Allowance for doubtful debts	**–**	(8)
	14	86

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 TRADE RECEIVABLES – GROUP *(CONTINUED)*

An ageing 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:

	31 December 2009 HK$'000	31 December 2008 HK$'000
Within 30 days	**14**	29
Between 31 – 60 days	**–**	11
Over 60 days	**–**	46
	14	86

25 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		**Company**	
	31 December 2009 HK$'000	31 December 2008 HK$'000	**31 December 2009 HK$'000**	31 December 2008 HK$'000
Deposits, prepayments and other receivables	**1,385**	4,895	**2,093**	1,142

26 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

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

If converted, the debenture represents approximately 5.4% of the outstanding ordinary shares of Petromin.

During the year ended 31 December 2009, changes in fair value of financial asset through profit or loss amounting to HK$509,000 was recorded in "Other loss, net" in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 BANK BALANCES AND CASH

	Group		Company	
	31 December 2009 HK$'000	31 December 2008 HK$'000	**31 December 2009 HK$'000**	31 December 2008 HK$'000
Cash at banks and in hand	**19,426**	52,431	**7,318**	37,322
Short-term bank deposits	**60,087**	81,309	**60,087**	80,071
	79,513	133,740	**67,405**	117,393

Bank balances earns 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.

At 31 December 2009, the bank balances and cash of the Group denominated in RMB amounted to approximately HK$101,000 (2008: HK$336,000). The RMB is not freely convertible into other currencies. However, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

28 TRADE PAYABLES – GROUP

At 31 December 2009, the ageing analysis of the trade payables based on invoice date is as follows:

	31 December 2009 HK$'000	31 December 2008 HK$'000
Within 30 days	**6,890**	9,873
Between 31 – 60 days	**2,259**	856
Over 60 days	**4,458**	1,522
	13,607	12,251

29 AMOUNT DUE TO A DIRECTOR – GROUP

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 DEFERRED TAX LIABILITIES

The following are major deferred tax liabilities recognised and movements thereon during the current year and prior period:

	Oil and gas properties	
	Year ended 31 December 2009 HK$'000	As restated Period from 1 August 2007 to 31 December 2008 HK$'000
At beginning of the year/period	**206,578**	–
Acquisition of a subsidiary (Note 35)	**–**	215,915
Exchange differences	**34,363**	(9,337)
At end of the year/period	**240,941**	206,578

31 SHARE CAPITAL

	Number of ordinary shares		Nominal value	
	Year ended 31 December 2009 '000	Period from 1 August 2007 to 31 December 2008 '000	**Year ended 31 December 2009 HK$'000**	Period from 1 August 2007 to 31 December 2008 HK$'000
Authorised				
At the beginning of year/period				
Ordinary shares of HK$0.0025 each as at 1 January 2009 and HK$0.005 each as at 1 August 2007	**20,000,000**	10,000,000	**50,000**	50,000
Share subdivision (i)	**–**	10,000,000	**–**	–
As at end of the year/period Ordinary shares of HK$0.0025 each	**20,000,000**	20,000,000	**50,000**	50,000

31 SHARE CAPITAL *(CONTINUED)*

	Number of ordinary shares		Nominal value	
	Year ended 31 December 2009 '000	Period from 1 August 2007 to 31 December 2008 '000	**Year ended 31 December 2009 HK$'000**	Period from 1 August 2007 to 31 December 2008 HK$'000
Issued and fully paid				
At the beginning of year/period				
Ordinary shares of HK$0.0025 each as at 1 January 2009 and HK$0.005 each as at 1 August 2007	**2,336,881**	1,074,546	**5,842**	5,373
Issue of new shares upon exercise of share options on 6 August 2007	**–**	14,152	**–**	70
	2,336,881	1,088,698	**5,842**	5,443
Share subdivision (i)	**–**	1,088,698	**–**	–
Issue of shares upon exercise of share options (ii)	**–**	49,485	**–**	124
Issued of shares for acquisition of a subsidiary (iii)	**–**	110,000	**–**	275
Issue of new shares upon exercise of share options on 20 July 2009 (ii)	**80**	–	**–**	–
Issue of new shares upon exercise of share options on 7 August 2009 (ii)	**1,400**	–	**4**	–
Issue of shares for acquisition of a subsidiary (iv)	**93,600**	–	**234**	–
As at end of year/period Ordinary share of HK$0.0025	**2,431,961**	2,336,881	**6,080**	5,842

Notes:

(i) An ordinary resolution proposed at the extraordinary general meeting of the Company 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 period from 1 August 2007 to 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 in the share capital of the Company for cash at the exercise prices 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.

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

(iii) The Company issued 110,000,000 ordinary shares ("Allied Resources 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 Allied Resources Consideration Shares rank pari passu with the existing shares in all respects except that the Allied Resources Consideration Shares are restricted to be transferred, sold, lent, charged, and mortgaged within three months from 29 February 2008. The fair value of the Allied Resources 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) The Company issued 93,600,000 ordinary shares ("Chavis Consideration Shares") on 31 December 2009 as part of the purchase consideration for the acquisition of Chavis (Note 35). The Chavis Consideration Shares rank pari passu with the existing shares in all respects. The fair value of the Chavis Consideration Shares at the date of acquisition amounted to approximately HK$8,424,000 at HK$0.09 per share.

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

32 RESERVES – COMPANY

	Share premium HK$'000	Capital reserve HK$'000	Available-for-sale investment reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 August 2007, as previously reported	524,950	871	–	36,642	(85,032)	477,431
Comprehensive loss, as restated						
Loss for the period	–	–	–	–	(128,190)	(128,190)
Other comprehensive loss						
Loss on change in fair value of available-for-sale investment	–	–	(2,922)	–	–	(2,922)
Total comprehensive loss for the year	–	–	(2,922)	–	(128,190)	(131,112)
Transactions with shareholders						
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	–
Issue of new shares	109,725	–	–	–	–	109,725
Deferred share consideration for the acquisition of a subsidiary (Note 35)	8,424	–	–	–	–	8,424
Total transactions with shareholders	129,577	–	–	21,909	5,482	156,968
As at 31 December 2008, as restated	654,527	871	(2,922)	58,551	(207,740)	503,287

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 RESERVES – COMPANY *(CONTINUED)*

	Share premium HK$'000	Capital reserve HK$'000	Available-for-sale investment reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 31 December 2008, as previously reported	646,103	871	(2,922)	58,551	(203,189)	499,414
Error in recognising directors' and management's bonus (Note 3(c))	–	–	–	–	(4,551)	(4,551)
Reclassification of deferred share consideration to equity (Note 3(b)(iii))	8,424	–	–	–	–	8,424
As at 31 December 2008, as restated	654,527	871	(2,922)	58,551	(207,740)	503,287
Comprehensive loss						
Loss for the period	–	–	–	–	(368,625)	(368,625)
Other comprehensive income						
Gain on change in fair value of available-for-sale investment	–	–	752	–	–	752
Total comprehensive income/(loss)	–	–	752	–	(368,625)	(367,873)
Transactions with shareholders						
Recognition of equity settled share-based payments	–	–	–	4,479	–	4,479
Exercise of share options	296	–	–	(145)	–	151
Forfeiture of share options	–	–	–	(25)	25	–
Issuance of deferred share consideration (Note 35)	(234)	–	–	–	–	(234)
Total transactions with shareholders	62	–	–	4,309	25	4,396
As at 31 December 2009	654,589	871	(2,170)	62,860	(576,340)	139,810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 SHARE OPTION SCHEMES

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

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

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

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

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

33 SHARE OPTION SCHEMES *(CONTINUED)*

(a) *(Continued)*

Movements in the number of share options outstanding and their weighted average exercise prices for the year ended 31 December 2009 are as follows:

	Weighted average exercise price (per share) HK$	Outstanding Options
As at 1 January 2009	**1.02**	85,907,200
Granted	**0.73**	33,155,000
Exercised	**0.10**	(1,480,000)
Lapsed/cancelled	**0.42**	(80,000)
As at 31 December 2009	**0.95**	117,502,200
Exercisable as at 31 December 2009	**1.16**	73,427,200
As at 1 August 2007 (Note)	**0.28**	132,376,000
Granted	**1.75**	35,400,000
Exercised	**0.08**	(77,788,800)
Lapsed/cancelled	**1.35**	(4,080,000)
As at 31 December 2008	**1.02**	85,907,200
Exercisable as at 31 December 2008	**1.14**	74,907,200

Note: The number of share options was adjusted upon the subdivision of shares of the Company which came to effect on 29 August 2007.

Share options outstanding as at 31 December 2009 have the following expiry date and exercise price:

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

33 SHARE OPTION SCHEMES *(CONTINUED)*

(a) *(Continued)*

Expiry date	Exercise price (per share) HK$	**Outstanding options as at 31 December 2008**
24 January 2013 (Note 1)	0.11	**16,240,000**
24 January 2013 (Note 1)	1.37	**16,500,000**
24 January 2013 (Note 1)	0.58	**1,120,000**
24 January 2013 (Note 1)	2.44	**24,200,000**
24 January 2013 (Note 1)	0.06	**16,847,200**
19 June 2018 (Note 2)	0.23	**11,000,000**
		85,907,200

Notes:

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

(2) Regarding the share options granted on 19 June 2008, 15 June 2009 and 6 October 2009, 50% of which are exercisable in a period commencing two years from the date of grant and expiring on the tenth anniversary from the date of grant. The balance of 50% of the share options are exercisable in a period commencing three years from the date of grant and expiring on the tenth anniversary from the date of grant

During the year ended 31 December 2009, share options for subscribing 33,155,000 shares of the Company were granted for a total consideration of HK$26. The aggregate share-based payment expense of HK$1,979,000 in relation to stock options granted to employees of the Group, was charged to consolidated income statement (for the period from 1 August 2007 to 31 December 2008: HK$324,000). The share-based payment expense in relation to stock options granted to non-employees amounted to HK$2,500,000 and was recorded as legal and professional fees in the consolidated income statement (for the period from 1 August 2007 to 31 December 2008: HK$32,544,000).

Options exercised in 2009 resulted in 1,480,000 shares (for the period from 1 August 2007 to 31 December 2008: 77,788,800 shares) being issued at a weighted average price of HK$0.10 each (for the period from 1 August 2007 to 31 December 2008: HK$0.08 each). The related weighted average share price at the time of exercise was HK$1.13 (for the period from 1 August 2007 to 31 December 2008: HK$2.01) per share.

(b) The fair values of the share options granted during the year ended 31 December 2009 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
15 June 2009	Nil	59.5%	2.911%	HK$0.73
6 October 2009	Nil	60.5%	2.189%	HK$0.75

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

(iii) The price of the Company's shares disclosed as at the date of grant of the share options was the closing price on which the aforesaid share options were granted.

33 SHARE OPTION SCHEMES *(CONTINUED)*

(b) *(Continued)*

The fair value of the share options during the year ended 31 December 2009 has been arrived at on the basis of a valuation carried out on date of grant by Vigers. The values of the options are subject to the limitations of the Binomial option pricing model and a number of assumptions which are subjective and difficult to ascertain. Changes in the subjective input assumptions could materially affect the fair value estimate.

The outstanding share options as at 31 December 2009 had a weighted average remaining contractual life of 5.37 years (for the period from 1 August 2007 to 31 December 2008: 4.76 years). The weighted average fair value of options granted during the year determined using the Binomial valuation model was HK$0.45 per option (for the period from 1 August 2007 to 31 December 2008: HK$0.96).

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

At 31 December 2009, the Company had 117,502,200 (31 December 2008: 85,907,200) share options outstanding under the Share Option Scheme, which represented approximately 4.83% (31 December 2008: 3.67%) of the Company's shares in issue at that date.

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

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

Prior to the adoption of the TWE Scheme, pursuant to the articles of TWE, a total of 12,850,000 incentive stock options ("TWE Options") were granted by TWE to certain of its directors and consultants to subscribe for common shares of TWE on 27 August 2008, prior to the acquisition of TWE by the Company. Details of the TWE Options as at 31 December 2009 were as follows:

	Exercise price (per share) CAD	Outstanding options
As at 1 January 2009 and 31 December 2009	0.03	12,850,000

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

34 EMPLOYEE RETIREMENT BENEFIT

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

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

The total cost charged to consolidated income statement of approximately HK$151,000 represents contributions payable to these schemes by the Group during the year ended 31 December 2009 (for the period from 1 August 2007 to 31 December 2008: HK$252,000).

35 BUSINESS COMBINATIONS

Acquisition of Allied Resources

On 29 February 2008, the Group acquired 100% of the issued share capital of Allied Resources for a consideration of approximately HK$211,236,000. Through the acquisition of Allied Resources, the Group obtained 50% equity interest in Qian An, which is engaged in the exploitation of petroleum resources activities and production of petroleum in the PRC. This acquisition has been accounted for using the purchase method. The relevant exploration and exploitation rights over the producing oil fields expire on 19 December 2016 (Note 21). The amount of goodwill arising from the acquisition was approximately HK$196,119,000 (as restated), and is included in the carrying value of the Group's interest in a jointly-controlled entity.

The assets and liabilities acquired (including goodwill arising from the acquisition included in interest in a jointly-controlled entity) were as follows:

	Carrying value at the date of acquisition HK$'000	As restated Fair value at the date of acquisition HK$'000
Plant and equipment (Note 17)	**25**	25
Interest in a jointly-controlled entity (Note 21)	**8,570**	298,401
Other receivables	**12,907**	12,907
Other receivable from a jointly-controlled entity	**10,447**	10,447
Bank balances and cash	**119**	119
Amount due to the holding company	**(82,594)**	(82,594)
Accrued liabilities and other payables	**(28,069)**	(28,069)
Fair value of net assets	**(78,595)**	211,236
Total consideration satisfied by:		
Cash paid		178,000
Fair value of shares issued (Note 31)		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 acquisition		5,830
		183,711
Less: deposit paid in the period ended 31 July 2007		
– included in deposits, prepayments and other receivables		(93,600)
		90,111

For the purpose of impairment assessment, Qian An is considered as a single cash generating unit.

35 BUSINESS COMBINATIONS *(CONTINUED)*

Acquisition of Chavis

On 13 October 2008, the Group acquired 100% of the issued share capital of Chavis for a consideration of approximately HK$17,597,000. Through the acquisition of Chavis, the Group obtained 63.91% controlling interests in TWE, which is engaged in the exploration and development of CBM in Xinjiang, the PRC. This acquisition has been accounted for using the purchase method. The amount of discount on acquisition was approximately HK$367,973,000.

The net assets acquired and the discount on acquisition arising were as follows:

	Carrying value at acquisition HK$'000	As restated Fair value at acquisition HK$'000
Oil and gas properties (Note a)	**17,236**	880,895
Other receivables	**38**	38
Bank balances and cash	**12,577**	12,577
Trade payables	**(1,569)**	(1,569)
Accrued liabilities and other payables	**(46,451)**	(46,451)
Deferred tax liabilities (Note 30)	**–**	(215,915)
Fair value of net assets	**(18,169)**	629,575
Minority interests		(244,005)
Discount on acquisition		(367,973)
Total consideration – shown as below		17,597
Total consideration satisfied by:		
Cash paid		8,041
Deferred share consideration (Note b)		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)

Note a: The fair value at the date of acquisition has been arrived at on the basis of a valuation carried out by Vigers and a technical assessment report issued by Norwest. Both Vigers and Norwest are consultants independent to 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. The key assumptions used in the cash flow projections are as follows:

Discount rate	20.3%
Realised gas price annual growth rate	3.0%

Note b: Pursuant to the sales and purchase agreement, part of the consideration will be settled by way of issuance of 93,600,000 new Company's shares. The fair value of these shares is determined using the published price of HK$0.09 at the date of the acquisition, amounted to approximately HK$8,424,000. In accordance with HKFRS, the deferred share consideration should have been recognised as equity, and should not be remeasured subsequently (Note 3(b)(iii)). These shares were issued on 31 December 2009.

Chavis contributed a profit of approximately HK$366,905,000 to the Group for the period between the date of acquisition and 31 December 2008.

For the purpose of impairment assessment, TWE is considered as a single cash generating unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 RELATED PARTY TRANSACTIONS

(a) Transactions with Petromin

Petromin Resources Limited ("Petromin") is a related company of the Group in which Mr. Chan Wing Him Kenny and Dr. Arthur Ross Gorrell, both being executive Directors of the Company, have a beneficial interest and take up key management positions. As at 31 December 2009: (i) Mr. Chan Wing Him Kenny, an executive Director, directly and indirectly held 1,615,177 stock options entitling him to subscribe for 1,615,177 common shares in Petromin (representing 2.8% of the outstanding shares of Petromin when the options are exercised); (ii) Dr. Arthur Ross Gorrell, an executive Director, held 2,243,193 common shares and 1,021,000 stock options entitling him to subscribe for 1,021,000 common shares in Petromin (representing 5.6% of the outstanding shares of Petromin when the options are exercised); and (iii) Mr. Lo Chi Kit, an independent non-executive Director, held 262,500 common shares in Petromin (representing 0.5% of the outstanding shares of Petromin). Mr. Chan Wing Him Kenny is also a director and the Co-Chairman of Petromin, while Dr. Arthur Ross Gorrell is a director, the other Co-Chairman, the President and the Chief Executive Officer of Petromin.

As at 31 December 2009, the Company held approximately 3% equity interests in Petromin, and Dragon Bounty, a wholly owned subsidiary of the Company held certain convertible debentures issued by Petromin. The debenture is convertible into 3,150,000 common shares of Petromin (approximately 5.4% of the outstanding common shares of Petromin).

The Group entered into the following material related party transactions with Petromin during the year ended 31 December 2009 and the period from 1 August 2007 to 31 December 2008:

	Year ended 31 December 2009 HK$'000	Period from 1 August 2007 to 31 December 2008 HK$'000
Petromin		
Contribution made to the Co-operation (as defined below) (Note (ii))	**75**	–
Consultancy fees paid / payable to Petromin (Note (iii))	**247**	194
Reimbursement of expenses paid by Petromin on behalf of the Group	**131**	–

(i) Master technical service agreement with Petromin

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

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

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

During the year ended 31 December 2009, there were no technical services provided by Petromin (for the period from 1 August 2007 to 31 December 2008: None).

36 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Transactions with Petromin *(Continued)*

(ii) Co-operative agreement with Petromin and CUCBM

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

The Co-operation commenced on 1 January 2008 and would be effective for five years or until terminated as provided in the Co-operative Agreement. The first phase would last for two years and the second phase would last for three years or longer as required to demonstrate of the project.

CUCBM, Petromin and the Company would be entitled to 60%, 20% and 20% of the income, intellectual property and / or benefits derived from the Co-operation respectively. Each party would contribute to the capital of the Co-operation, in cash or property in agreed upon value. As at 31 December 2009, the Co-operation was still in its first phase under the Co-operative Agreement and no legal entity has been formed pursuant to this Co-operation.

(iii) Professional services and management agreement with Petromin

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

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

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

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

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

36 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Transactions with Petromin *(Continued)*

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

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

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

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

(b) Key management personnel compensation

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

	Year ended 31 December 2009 HK$'000	As restated Period from 1 August 2007 to 31 December 2008 HK$'000
Salaries, allowances and other benefits	**14,923**	15,725
Retirement benefit scheme contributions	**47**	55
Share-based payments	**1,804**	70
Discretionary and performance related incentive payments	**2,726**	14,790
	19,500	30,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 OPERATING LEASES COMMITMENT

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

	31 December 2009 HK$'000	31 December 2008 HK$'000
Within one year	**3,192**	2,077
After one year but within five years	**2,553**	1,743
	5,745	3,820

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

38 CAPITAL COMMITMENT

	31 December 2009 HK$'000	31 December 2008 HK$'000
Other commitments contracted for but not provided in the consolidated financial statements in respect of:		
– PSC (Note (i))	**10,140**	20,280
– Co-operative Agreement (Note (ii))	**1,325**	1,868
	11,465	22,148

Notes:

(i) The amount of approximately US$1,300,000 (equivalent to HK$10,140,000) represents the minimum work obligations as at 31 December 2009 (2008: US$2,600,000 (equivalent to HK$20,280,000)), as required by the PSC of TWE to be incurred before the end of February 2011.

(ii) Pursuant to the Co-operation Agreement, the Company would contribute RMB3,460,000 (approximately HK$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 (approximately HK$17,065,000) or more would be funded in the second phase. The capital contribution of each party in the second phase would be further determined.

39 CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any contingent liabilities (2008: Nil).

FIVE YEARS FINANCIAL STATEMENT SUMMARY

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December 2009 HK$'000	As restated Period From 1 August 2007 to 31 December 2008 HK$'000	Year ended 31 July 2007 HK$'000	2006 HK$'000	2005 HK$'000
Revenue	**310**	2,213	3,374	6,988	22,514
Cost of sales	**(246)**	(1,818)	(2,865)	(6,600)	(20,239)
Gross profit	**64**	395	509	388	2,275
Other operating income	**–**	–	6,151	74	105
Discount on acquisition	**–**	367,973	–	–	–
Administrative and operating expenses	**(44,095)**	(163,936)	(52,634)	(8,248)	(13,999)
Share of profits less losses of:					
– jointly-controlled entity before impairment loss	**(3,279)**	3,198	–	–	(478)
– jointly-controlled entity's impairment loss	**(59,748)**	(227,802)	–	–	(1,458)
Other loss, net	**(509)**	–	–	–	–
Operating loss	**(107,567)**	(20,172)	(45,974)	(7,786)	(13,555)
Finance income	**42**	6,833	–	–	–
Finance costs	**–**	–	–	–	(64)
Loss before taxation	**(107,525)**	(13,339)	(45,974)	(7,786)	(13,619)
Income tax	**–**	–	–	–	–
Loss for the period/year	**(107,525)**	(13,339)	(45,974)	(7,786)	(13,619)
Minority interests	**(930)**	(2,193)	–	–	–
Loss attributable to equity holders of the Company	**(106,595)**	(11,146)	(45,974)	(7,786)	(13,619)

FIVE YEARS FINANCIAL STATEMENT SUMMARY

CONSOLIDATED BALANCE SHEET

	As at 31 December			As at 31 July	
		As restated			
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,136,485**	1,091,666	490,383	3,048	11,278
Total liabilities	**(281,831)**	(250,643)	(7,237)	(7,212)	(7,599)
Total assets less liabilities	**854,654**	841,023	483,146	(4,164)	3,679
Minority interests	**(299,118)**	(231,302)	–	–	–
Net assets/(liabilities)	**555,536**	609,721	483,146	(4,164)	3,679