# Enviro Energy International Holdings Limited

# 環 能 國 際 控 股 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

***Website: http://www.enviro-energy.com.hk***

**(Stock Code: 8182)**

## ANNUAL RESULTS ANNOUNCEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2009

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED ("STOCK EXCHANGE")**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**



*This announcement, for which the directors ("**Directors**") of Enviro Energy International Holdings Limited ("**Company**" and together with its subsidiaries and jointly-controlled entity, "**Group**" or "**Enviro Energy**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## CHAIRMAN'S STATEMENT

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 ("$\mathbf{CO_2}$").

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.

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.

## 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.

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 losses 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 interests 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 (equivalent to approximately HK$4.2 million). 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 assets 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 33,150,000 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 as a functional currency, against the Hong Kong dollars 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 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.

## 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 64.25% of the issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis.

TWE has remained a subsidiary of the Group after this transaction. 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.

## CONSOLIDATED INCOME STATEMENT

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2009, together with the restated comparative figures for the period from 1 August 2007 to 31 December 2008 as follows:

| | Note | **Year ended 31 December 2009** *HK$'000* | (As restated) Period from 1 August 2007 to 31 December 2008 *HK$'000* |
|---|---|---|---|
| Revenue | *5* | **310** | 2,213 |
| Cost of sales | | **(246)** | (1,818) |
| Gross profit | | **64** | 395 |
| Other loss, net | | **(509 )** | – |
| Discount on acquisition | | **–** | 367,973 |
| Administrative and operating expenses | | **(44,095)** | (163,936) |
| Finance income | | **42** | 6,833 |
| Share of profits less losses of: | | | |
| — jointly-controlled entity before impairment loss | | **(3,279)** | 3,198 |
| — jointly-controlled entity's impairment loss | | **(59,748)** | (227,802) |
| Loss before taxation | | **(107,525)** | (13,339) |
| Income tax | *6* | **–** | – |
| 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) | *7* | | |
| Basic | | **(4.56)** | (0.49) |
| Diluted | | **N/A** | N/A |

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2009

| | Note | **31 December 2009 HK$'000** | (As restated) 31 December 2008 HK$'000 | (As restated) 31 July 2007 HK$'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Plant and equipment | | **3,531** | 4,198 | 524 |
| Interest in a jointly-controlled entity | | **2,710** | 70,290 | – |
| Available-for-sale investment | | **1,411** | 659 | – |
| Oil and gas properties | | **1,022,216** | 860,734 | – |
| Club memberships | | **2,370** | 2,370 | – |
| | | **1,032,238** | 938,251 | 524 |
| **Current assets** | | | | |
| Trade receivables | 8 | **14** | 86 | 198 |
| Deposits, prepayments and other receivables | | **1,385** | 4,895 | 94,546 |
| Amount due from a jointly-controlled entity | | **19,401** | 14,694 | – |
| Financial asset at fair value through profit or loss | | **3,934** | – | – |
| Bank balances and cash | | **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 | | **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 | | **240,941** | 206,578 | – |
| **Current liabilities** | | | | |
| Trade payables | 9 | **13,607** | 12,251 | 51 |
| Accrued liabilities and other payables | | **27,283** | 31,734 | 7,186 |
| Amount due to a director | | **–** | 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 |

## NOTES

### 1. BASIS OF PREPARATION

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 assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

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 in line with that of the statutory year end date of 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.

### 2. APPLICATION OF NEW HKFRS

**New and amended standards adopted by the Group**

*Hong Kong Accounting Standard ("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 the consolidated 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 there of 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.

## 3. PRIOR PERIOD ADJUSTMENTS

The Group has made several prior period adjustments ("Prior Period Adjustments") in its consolidated financial statements for the period from 1 August 2007 to 31 December 2008. The Prior Period Adjustments mainly include adjustments to the accounting treatment of the two acquisitions made during the period from 1 August 2007 to 31 December 2008, namely the acquisition of Allied Resources and Chavis, mathematical errors in the calculation of the impairment loss for a jointly-controlled entity and cut-off errors in the recognition of bonus.

As a result of the Prior Period Adjustments, the Group has restated its results for the period from 1 August 2007 to 31 December 2008 from making a profit attributable to equity holders of the Company of approximately HK$18.3 million to making a loss attributable to equity holders of approximately HK$11.1 million. Total assets as at 31 December 2008 have decreased from approximately HK$1,115.1 million to HK$1,091.7 million, while total equity decreased from approximately HK$862.2 million to HK$841.0 million, respectively, as a result of the Prior Period Adjustments.

## 4. SEGMENT INFORMATION

The Group has 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 Chief Executive Officer of the Company ("CEO").

Management has determined the operating segments based on the reports reviewed by the CEO that are used to make strategic decisions. The CEO considers business from both an operation and geographic perspective.

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) Information technology related services in Hong Kong

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

(iii) TWE — Exploration, development and production of CBM and liquid hydrocarbons in the PRC

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 assets 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.

(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's 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 |

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

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:

| | | (As restated) | | |
|---|---|---|---|---|
| | **Information technology related services in Hong Kong** | **Oil and gas exploration in China** | | |
| | **Hong Kong** | **Qian An** | **TWE** | **Consolidated** |
| | *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 |

| | **Information technology related services in Hong Kong** | **Oil and gas exploration in China** | | | |
|---|---|---|---|---|---|
| | **Hong Kong** | **Qian An** | **TWE** | **Unallocated** | **Consolidated** |
| | *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, for which the operating entities are domiciled 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 |

## 5. 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* |
|---|---|---|
| **Revenue** | | |
| Sale of computer hardware and software | **279** | 521 |
| Network infrastructure maintenance and other services | **31** | 1,692 |
| | **310** | 2,213 |

## 6. 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 payment of the British Virgin Islands income taxes.

No Hong Kong profits tax had 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 PRC subsidiaries 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).

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

## 7. 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 for the period from 1 August 2007 to 31 December 2008, as restated.

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** | (As restated) Period from 1 August 2007 to 31 December 2008 |
|---|---|---|
| Loss attributable to equity holders of the Company for the purposes 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 HK$0.005 each into two subdivided shares of par value of HK$0.0025 each on 29 August 2007 had been completed before the beginning of the period).

(b) The Group had share options and warrants 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.

## 8. TRADE RECEIVABLES

| | **31 December 2009** *HK$'000* | 31 December 2008 *HK$'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.

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

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

The carrying amounts of trade receivables approximate their fair value.

## 9. TRADE PAYABLES

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

| | **As at 31 December 2009** *HK$'000* | As at 31 December 2008 *HK$'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 |

The carrying amounts of trade payables approximate their fair value.

## DIVIDENDS

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

## ANNUAL GENERAL MEETING

The 2010 annual general meeting of the Company will be held on Monday, 12 April 2010 ("**AGM**") and the notice of AGM will be published and dispatched in the manner as required by the articles of association of the Company.

## 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.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, save as disclosed below, the Company has complied with the code provisions of the Code on Corporate Governance Practices ("**CG Code**") set out in Appendix 15 to the GEM Listing Rules, throughout for the year ended 31 December 2009:

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

- the independent non-executive Directors form the majority of the Board;
- the audit committee of the Company ("**Audit Committee**") composed exclusively of independent non-executive Directors; and
- the independent non-executive Directors have free and direct access to the Company's external auditor and independent professional advice when considered necessary.

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 AGM. 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 AGM. The Board is of the view that this has not caused any prejudice to the shareholders.

## COMPETING BUSINESS AND CONFLICTS OF INTEREST

During the year ended 31 December 2009, Mr. Chan Wing Him Kenny, an executive Director and 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.

## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executives Directors, namely, Mr. David Tsoi (chairman of the Audit Committee), Mr. Lo Chi Kit and Mr. Tam Hang Chuen.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Group's consolidated results for the year ended 31 December 2009 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such consolidated financial statements complied with the applicable accounting standards and requirements of the Stock Exchange and legal requirements, and that adequate disclosures have been made.

By Order of the Board
**Chan Wing Him Kenny**
*Chairman and Chief Executive Officer*

Hong Kong, 12 March 2010

*As at the date of this announcement, the Directors are:*

**Executive Directors**
Mr. Chan Wing Him Kenny
Dr. Arthur Ross Gorrell

**Independent non-executive Directors**
Mr. David Tsoi
Mr. Lo Chi Kit
Mr. Tam Hang Chuen

*This announcement will remain on the website of GEM at www.hkgem.com on the "**Latest Company Announcements**" page for at least 7 days and on the website of the Company at www.enviro-energy.com.hk.*