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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 on Main Board: 1102)

(Stock Code on GEM: 8182)

**TRANSFER OF LISTING FROM THE
GROWTH ENTERPRISE MARKET TO THE MAIN BOARD
OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

All pre-conditions for the Transfer as set out in the Listing Rules have been fulfilled in relation to our Company and our Shares. The last day of dealings in our Shares on GEM (Stock code: 8182) will be 16 December 2010. Dealings in our Shares on the Main Board (Stock code: 1102) will commence at 9:30 a.m. on 17 December 2010.

The Transfer will have no effect on the existing share certificates in respect of our Shares which will continue to be good evidence of legal title and will not involve any transfer or exchange of the existing share certificates. No change will be made to the board lot size and trading currency of our Shares and our share registrars in connection with the Transfer.

If there is any inconsistency between the English version and the Chinese version of this circular, the English version shall prevail.

9 December 2010

CHARACTERISTICS OF GEM

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.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

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| “A Warrant” | means the common share purchase warrant forming part of the units which shall be exercisable at the exercise price of C\$0.10 and entitling the holder, on exercise, to purchase one TWE Share (subject to adjustment) within two years following the date of issuance of such warrant; |
| “Affiliates” | has the meaning ascribed to it in paragraph 1 of the section headed “II. TWE SCHEME” of Appendix IX to this circular; |
| “AITF” | means Alberta Innovates – Technology Futures, formerly known as Alberta Research Council Inc., an independent third party to our Company; |
| “Articles” | means our articles of association as may be amended from time to time; |
| “Associates” | has the meaning ascribed to it in the GEM Listing Rules or the Listing Rules (as the case may be); |
| “Audit Committee” | means our audit committee; |
| “Authorised Representative(s)” | has the meaning ascribed to it in the paragraph headed “I. Management Presence” of Appendix II to this circular; |
| “B Warrant” | means the common share purchase warrant forming part of the units which shall be exercisable at the exercise price of C\$0.15 and entitling the holder, on exercise, to purchase one TWE Share (subject to adjustment) within three years following the date of issuance of such warrant; |
| “Board” | means the board of Directors of our Company; |
| “business day” | means any day on which securities are traded on the Stock Exchange; |
| “BVI” | means the British Virgin Islands; |

DEFINITIONS

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| “C Warrant” | means the common share purchase warrant forming part of the units which shall be exercisable at the exercise price of C\$0.07 and entitling the holder, on exercise, to purchase one TWE Share (subject to adjustment) within two years following the date of issuance of such warrant; |
| “C\$” | means Canadian dollars, the lawful currency of Canada; |
| “Cayman Court” | means Grand Court of the Cayman Islands; |
| “CCASS” | means the Central Clearing and Settlement System; |
| “CG Code” | means the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules; |
| “Chavis” | means Chavis International Limited, a company incorporated in the BVI with limited liability and our wholly-owned subsidiary; |
| “China Party” | means (i) CUCBM before the completion of the proposed transfer by CUCBM of all its interests and associated obligations with respect to certain gas fields (including those in the PSC area) to CNPC as approved by the State-owned Assets Supervision and Administration Commission of the State Council, and (ii) CNPC after completion of such proposed transfer; |
| “China Coal” | means China National Coal Group Corp. which is a state-owned enterprise established in the PRC, the sole shareholder of CUCBM; |
| “CKI” | means Cheung Kong Infrastructure Holdings Limited, whose subsidiary, Green Island Cement Company, Limited, was indirectly interested in approximately 7.20% of our Shares through its holding of the Note Instrument as of the Latest Practicable Date; |
| “CNPC” | means China National Petroleum Corp., an independent third party to our Company; |
| “Colpo” | means Colpo Mercantile Inc, a company incorporated in the BVI with limited liability, and our Controlling Shareholder; |

DEFINITIONS

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| “Companies Law” | means the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands; |
| “Companies Ordinance” | means the Companies Ordinance, Chapter 32 of the Laws of Hong Kong; |
| “Company” | means Enviro Energy International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which were listed on GEM as of the Latest Practicable Date; |
| “Competent Person’s Report” | means the report dated 3 November 2010 which complies with Chapter 18 of and Appendix 25 to the Listing Rules, prepared by Norwest Corporation; |
| “Contingent Resources” | has the meaning ascribed to it in Chapter 18 of the Listing Rules; |
| “Controlling Shareholders” | means Mr. Chan and Colpo and “Controlling Shareholder” shall mean any of them; |
| “CUCBM” | means 中聯煤層氣有限責任公司 (China United Coalbed Methane Corporation Limited), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of China Coal; |
| “D Warrant” | means the common share purchase warrant forming part of the units which shall be exercisable at the exercise price of C\$0.10 and entitling the holder, on exercise, to purchase one TWE Share (subject to adjustment) within three years following the date of issuance of such warrant; |
| “Deed of Non-competition” | means the deed of non-competition undertakings dated 7 December 2010 signed by the Controlling Shareholders in favour of our Company; |
| “Deed of Indemnity” | means the deed of indemnity dated 7 December 2010 signed by the Controlling Shareholders in favour of our Company; |
| “Director(s)” | means our directors or our Board, as the context may require; |
| “Dr. Gorrell” | means Dr. Arthur Ross Gorrell, our executive Director; |

DEFINITIONS

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| “Effective Date” | means 20 April 2009, the date on which the adoption of the TWE Scheme by TWE Shareholders was approved by an ordinary resolution of our Shareholders; |
| “Eligible Person” | means (a) any executive, employee or director of TWE or any Affiliate; and (b) any consultant, advisor, agent, business partner, joint venture partner, service provider, contractor who, as determined at the sole discretion of the TWE Board, has or may have contribution to TWE or any Affiliate, provided that such person is a person described in section 2.4(2) of National Instrument 45-106-Prospectus and Registration Exemptions of British Columbia; |
| “Employment Ordinance” | means the Employment Ordinance, Chapter 57 of the Laws of Hong Kong; |
| “GEM” | means the Growth Enterprise Market of the Stock Exchange; |
| “GEM Listing Rules” | means the Rules Governing the Listing of Securities on GEM as may be amended from time to time; |
| “Grantee(s)” | has the meaning ascribed to it in paragraph 1(b) of the section headed “I. SHARE OPTION SCHEME” of Appendix IX to this circular; |
| “Group” | means our Company, our subsidiaries and jointly-controlled entity; |
| “HK\$” | means Hong Kong dollars, the lawful currency of Hong Kong; |
| “HKSCC” | means Hong Kong Securities Clearing Company Limited; |
| “Hong Kong” | means the Hong Kong Special Administrative Region of the People’s Republic of China; |
| “International Advisory Board” | means the International Advisory Board established by us; |
| “Jilin Hengli” | means Jilin Hengli Industries Liability Co., Ltd., our wholly-owned foreign enterprise; |
| “JMC” | means the joint management committee established under the PSC; |

DEFINITIONS

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| “Joint Venture Contract” | means the joint venture contract dated 1 November 2002 entered into between PetroChina and Jilin Hengli; |
| “Latest Practicable Date” | means 7 December 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion therein; |
| “Listing Date” | means 17 December 2010, being the date on which the listing of our Shares are transferred from GEM to the Main Board; |
| “Listing Rules” | means the Rules Governing the Listing of Securities on the Stock Exchange as may be amended from time to time; |
| “Liuhuanggou CBM Project” or “Liuhuanggou Project” | means the CBM exploitation project at Liuhuanggou, Xinjiang, the PRC under the PSC; |
| “Main Board” | means the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM; |
| “Management Committee” | means the management committee of our Company; |
| “Memorandum” | means the memorandum of association of our Company as may be amended from time to time; |
| “MPF” | means the Mandatory Provident Fund; |
| “Mr. Chan” | means Mr. Chan Wing Him Kenny, the Chairman, Chief Executive Officer and an executive Director of our Company as well as our Controlling Shareholder; |
| “Note Instrument” | has the meaning ascribed to it in sub-paragraph (iv) of paragraph (b) headed “Business Prospect” of Appendix IV to this circular; |
| “Option(s)” | has the meaning ascribed to it in paragraph 1(b) of the section headed “I. SHARE OPTION SCHEME” of Appendix IX to this circular; |

DEFINITIONS

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| “Option Period” | has the meaning ascribed to it in paragraph 6(a) of the section headed “I. SHARE OPTION SCHEME” of Appendix IX to this circular; |
| “Our Group”, “us” or “we” | means our Company and/or subsidiaries and/or jointly-controlled entity depending on the context so required; |
| “Participant(s)” | has the meaning ascribed to it in paragraph 1(b) of the section headed “I. SHARE OPTION SCHEME” of Appendix IX to this circular; |
| “PetroChina” | means PetroChina Company Limited, an independent third party to our Company; |
| “Petromin” | means Petromin Resources Ltd, a company incorporated in British Columbia, Canada and which shares are listed on Toronto Stock Exchange Venture Board, in which our Company holds approximately 3% of its equity interest and our connected person by virtue of its approximately 27.49% interest in the issued common and preferred share capital of TWE; |
| “PRC” or “China” | means the People’s Republic of China, excluding, for the purpose of this circular only and except where the context may otherwise require, Hong Kong, Macau and Taiwan; |
| “PSC” | means the production sharing contract dated 30 December 2005 entered into between TWE and CUCBM; |
| “Qian An” | means Qian An Oil Development Co., Ltd. an equity joint venture company established in the PRC, in which our Company indirectly owns 50% of its equity interest; |

DEFINITIONS

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| “Relevant Event” | means any variation in the share capital of TWE arising from any reduction, sub-division or consolidation of share capital, any rights issue or the issue of any share capital (including any securities convertible into share capital or warrants or options to subscribe for any share capital but excluding any TWE Option granted pursuant to the TWE Scheme or other share option schemes of TWE) by way of capitalisation of profits or reserves or in connection with an offer made pro rata to the TWE Shareholders except where share capital is issued as consideration or part consideration in a transaction; |
| “Relevant Periods” | means the year ended 31 July 2007, the seventeen-month period ended 31 December 2008 and the year ended 31 December 2009, collectively; |
| “Remuneration Committee” | means the remuneration committee of our Company; |
| “Rich Concept” | means Rich Concept Technology Limited, a company incorporated in the BVI with limited liability and our wholly-owned subsidiary; |
| “RMB” | means Renminbi, the lawful currency of the PRC; |
| “S\$” | means Singapore dollar, the lawful currency of Singapore; |
| “SAFE” | means State Administration of Foreign Exchange of the PRC; |
| “Scheme Mandate Limit” | has the meaning ascribed to it in paragraph 4(b) of the section headed “I. SHARE OPTION SCHEME” of Appendix IX to this circular; |
| “Scoping Study” | means the preliminary evaluation of a mineral project, including an assessment of the economic viability of CBM and/or liquid hydrocarbons, details of which are set out in Appendix VII to this circular; |
| “SFO” | means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong; |
| “Share(s)” | means the ordinary share(s) of par value of HK\$0.0025 each in the share capital of our Company or any other nominal amount for the time being comprising the share capital of our Company; |

DEFINITIONS

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| “Share Option Scheme” | means the post-IPO share option scheme adopted by us on 25 January 2003; |
| “Shareholder(s)” | means holders of the Shares of our Company; |
| “Stock Exchange” | means The Stock Exchange of Hong Kong Limited; |
| “subsidiaries” | has the meaning ascribed to it in the GEM Listing Rules or the Listing Rules (as the case may be); |
| “Supplementary Guidance” | means the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 and any guidance and interpretation issued from time to time by the Stock Exchange relating to share option schemes; |
| “Takeovers Code” | means the Code on Takeovers and Mergers; |
| “Transfer” | means the transfer of listing of our Shares from GEM to the Main Board; |
| “TWE” | means TerraWest Energy Corp., a company incorporated in British Columbia, Canada with limited liability and our non wholly-owned subsidiary; |
| “TWE Board” | means the board of directors of TWE for the time being; |
| “TWE Grantee” | means any Eligible Person who accepts a TWE Offer in accordance with the terms of the TWE Scheme or (where the context so permits) a person entitled, in accordance with the laws of succession applicable, to exercise any TWE Option in consequence of the death of the original TWE Grantee; |
| “TWE Offer” | means an offer to grant a TWE Option; |
| “TWE Offer Date” | means (save as modified in the context of particular rules) the date on which a TWE Offer is made to an Eligible Person; |
| “TWE Option” | means an option to subscribe for TWE Shares granted pursuant to the TWE Scheme and for the time being subsisting; |
| “TWE Option Holder” | means a person holding a TWE Option; |

DEFINITIONS

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| “TWE Option Period” | means the period during which a TWE Option may be exercised as notified by the TWE Board to an Eligible Person in the TWE Offer, provided that such period shall not be longer than 10 years from the TWE Offer Date and the TWE Board may also provide restrictions on the exercise of a TWE Option during the period a TWE Option may be exercised; |
| “TWE Option Price” | means the amount of C\$1.00 (or foreign currency equivalent) payable for each acceptance of a TWE Offer; |
| “TWE Scheme” | means TWE’s share option scheme in the form approved and adopted by TWE Shareholders and by Shareholders on the Effective Date, or any form amended by TWE Shareholders and by Shareholders; |
| “TWE Scheme Period” | means the period commencing on the Effective Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof; |
| “TWE Shareholder” | means a registered holder of issued TWE Shares from time to time; |
| “TWE Share(s)” | mean(s) common share(s) without par value in the share capital of TWE; |
| “TWE Subscription Price” | means the price at which each TWE Share subject to a TWE Option may be subscribed for on the exercise of the TWE Option as set out in paragraph 4 and subject to paragraph 13 of the section headed “II. TWE SCHEME” of Appendix IX to this circular; |
| “US” | mean the United States of America; |
| “US\$” | means US dollars, the lawful currency of the US; |
| “Xinjiang” | means Xinjiang Uygur Autonomous Region; and |
| “%” | means per cent. |

GLOSSARY OF TECHNICAL TERMS

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| “bcf” | means billion cubic feet; |
| “CBM” | means coalbed methane, a gas which is generally created during the formation of coal and is trapped within a coal seam by formation water. CBM is chemically identical to other sources of gas, but is produced by non-conventional methods; |
| “CCS” | means carbon capture and sequestration; |
| “CO ₂ ” | means carbon dioxide; |
| “COGE Handbook” | means Canadian Oil and Gas Evaluation Handbook; |
| “ECBM” | means enhanced CBM; |
| “GHG” | means green house gas; |
| “GIIP” | means gas initially in place; |
| “J1B” | means Jurassic Badaowan; |
| “J2X” | means Jurassic Xishanyao; |
| “mcf” | means thousand cubic feet; |
| “NI 51-101” | means a disclosure standard set by the Canadian Securities Administrators for reporting issuers who are reporting on their oil and gas activities. The standard incorporates the resource estimation procedures of the COGE Handbook prepared jointly by The Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society); |
| “scf” | means standard cubic feet; |
| “sq km” | means square kilometer; and |
| “t” | means ton. |



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 on Main Board: 1102)

(Stock Code on GEM: 8182)

Executive Directors:

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

Independent Non-executive Directors:

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

Registered Office:

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

Head Office and Principal Place of

Business in Hong Kong:

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

9 December 2010

To Shareholders

Dear Sir or Madam,

**TRANSFER OF LISTING FROM THE
GROWTH ENTERPRISE MARKET TO THE MAIN BOARD
OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

INTRODUCTION

Reference is made to the announcement issued by us dated 5 October 2010 in relation to the formal application submitted to the Stock Exchange for the Transfer pursuant to Chapters 9A and 18 of the Listing Rules.

On 5 October 2010, an application was made by our Company to the Stock Exchange for the Transfer. We have applied for the listing of, and permission to deal in, (i) 2,777,458,800 Shares in issue; and (ii) 259,222,200 new Shares and 163,196,080 new Shares which may fall to be issued upon the exercise of the outstanding Options which were granted and to be granted under our Share Option Scheme, on the Main Board by way of the Transfer. Approval-in-principle has been granted by the Stock Exchange on 8 December 2010 for our Shares to be listed on the Main Board according to Chapters 9A and 18 of the Listing Rules, and delisted from GEM according to Chapter 9A of the Listing Rules.

LETTER FROM OUR BOARD

All pre-conditions for the Transfer as set out in the Listing Rules have been fulfilled in relation to us and our Shares.

Our Directors currently expect that dealings in our Shares on GEM will cease from 4:00 p.m. on 16 December 2010 and the listing of our Shares on GEM will be withdrawn at the close of business on 16 December 2010. Dealings in our Shares on the Main Board are expected to commence from 9:30 a.m. on 17 December 2010.

Save that our Shares are currently listed on GEM, no part of our Shares or loan capital (if any) is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

REASONS FOR THE TRANSFER

We have been listed on GEM since 18 February 2003. Our Directors believe that the listing of our Shares on the Main Board will enhance the profile of our Group and could improve the trading liquidity of our Shares. Our Directors also believe that following the Transfer, we can gain wider recognition among larger institutional and retail investors. Our Directors consider that the listing of our Shares on the Main Board will be beneficial to our future growth, financial flexibility and business development.

The Transfer will not involve any issue of new Shares.

OUR SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the Transfer, our Shares to be listed and dealt in on the Main Board of the Stock Exchange and our compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS.

REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by our principal registrar, Butterfield Fulcrum Group (Cayman) Limited, in the Cayman Islands at Butterfield House, 68 Fort Street, P.O. Box 609, Grand Cayman KY1-1107, Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong branch registrar, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong. Dealings in our Shares registered on our Hong Kong branch registrar will be subject to Hong Kong stamp duty.

LETTER FROM OUR BOARD

OUR BUSINESS

(i) Principal business activities

Our 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.

These include business involving energy production projects, including exploration and exploitation of conventional and unconventional oil and natural gas. Our Group also utilises the climate change related technology, including geological sequestration of CO₂, ECBM, enhanced oil recovery, coal mine methane mitigation and GHG emission reduction. Our unconventional natural gas business is at exploration and pilot production testing stage.

For your information of our Group's background, we were originally engaged in the business of IT solutions and services. However, due to increasing labour costs and keen price competition, and after careful evaluation and assessment of the business environment and operational performance of this business segment, management decided to scale down the IT solutions and services business in July 2008 to minimise our Group's exposure to this market. In 2008, our Group reached its momentous milestones by completing two acquisitions which reinforced our Group's strategic position in the PRC and in the energy industry. In February 2008, we acquired 50% of Qian An and its results are accounted for under the equity accounting method in our Group's consolidated financial statements. From October 2008 to 2010, we acquired controlling interests in TWE which enabled our Group to be involved in the exploration and development of CBM with the exclusive cooperation with the China Party. Our Group is now focused on securing energy-related projects involving conventional oil, unconventional natural gas and state-of-the-art oil and gas related environmental technologies.

The risk factors regarding our business are set out in Appendix I to this circular.

(ii) Major customers and suppliers

As of the Latest Practicable Date, as disclosed above, we continued to focus our resources on our principal business activities, energy-related business, and have scaled-down substantially our IT solutions and services business. We generated minimal revenue from our IT solutions and services business during the Relevant Periods while our non-conventional natural gas businesses were still in exploration and evaluation phases.

During the year ended 31 December 2009, sales to our Group's five largest customers, which all contributed from our IT solutions and services business, accounted for approximately 98.2% of our Group's total sales and sales to the largest customer included therein accounted for approximately 48.1%.

LETTER FROM OUR BOARD

During the year ended 31 December 2009, purchases from our Group's five largest suppliers, which all contributed to our IT solutions and services business, accounted for approximately 100% of our Group's total purchases and purchases from the largest supplier included therein accounted for approximately 95.6%.

The approximate percentages of our Group's purchases and sales for the Relevant Periods attributable to major suppliers and customers were as follows:

| | Year ended | | Seventeen- month period | | Year ended | |
|------------------------|-------------------|------|------------------------------------|----|--------------------|------|
| | 31 July | | ended | | 31 December | |
| | 2007 | | 31 December | | 2009 | |
| | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % |
| Purchases | | | | | | |
| the largest supplier | 883 | 30.8 | 589 | 32 | 235 | 95.6 |
| five largest suppliers | 1,525 | 53.2 | 1,123 | 62 | 246 | 100 |
| Sales | | | | | | |
| the largest customer | 1,893 | 56.1 | 501 | 23 | 149 | 48.1 |
| five largest customers | 2,634 | 78.1 | 1,670 | 75 | 305 | 98.2 |

During the Relevant Periods, none of our Directors or any of their Associates or any Shareholders (which, to the best knowledge of our Directors, own more than 5% of our issued share capital) had any beneficial interest in the share capital of the suppliers or customers referred to above.

The customers of our Group mainly consist of corporate users. The payment terms are based upon the relevant sales agreements and the settlements are mainly payments in cash on or before the payments due dates. Our Group's trading terms with its customers are either on cash on delivery basis or on credit basis for a credit period of 30 days.

The payment terms are based upon the relevant purchase agreements and the settlements are mainly payments in cash on or before the payments due dates. Our Group's trading terms with its suppliers are on credit basis with a credit period of 30 days.

(iii) Research and Development

We have entered into a co-operative agreement with Petromin and CUCBM on 25 January 2008, details of which are set out in the sub-paragraph headed "Environmental technologies" in the paragraph headed "Management Discussion and Analysis" in Appendix IV to this circular.

LETTER FROM OUR BOARD

MINERAL COMPANY UNDER CHAPTER 18 OF THE LISTING RULES

1. PSC

The PSC was executed on 30 December 2005. It came into force on 1 March 2006 after receiving approval of the Ministry of Commerce of the PRC. The term of the PSC is 30 consecutive years, with production period of not more than 20 consecutive years.

Pursuant to the terms of the PSC, TWE, as operator, has been granted adequate rights to participate actively and has sufficient influence in decisions over the exploration for, development, production and sale of CBM and/or liquid hydrocarbons which are defined as gas stored in certain named geological formations of Jurassic age to a depth of 1,500 metres in the area covered by the PSC. The area covers approximately 653 sq km in the Junggar Basin of Xinjiang Province in the northwest of the PRC.

Under the PSC, TWE shall begin to perform the exploration operations within six months after the date of commencement of the implementation of the PSC on 1 March 2006 and shall fulfill the minimum exploration work commitment and annual expected minimum exploration expenditures for each phase of the exploration period. The roles of TWE, as the operator, are, among others, to perform the exploration operations reasonably, economically and efficiently in accordance with sound international practice, to prepare work programs (i.e. plans formulated for the performance of the exploration operations, including but not limited to plans for exploration, development, production, transportation and sales and budgets related to the CBM operations and to carry out the approved work programs and budgets) and to be responsible for procurement of installations, equipment, and supplies and entering into subcontracts and service contracts related to the exploration operations, in accordance with the approved work programs. There is no specific role for China Party relative to CBM exploration operations as described in the PSC. Nevertheless, the roles of China Party in general are, among others, to facilitate local approvals, liaise with local and government bodies and assist TWE to recruit PRC employees. Pursuant to the PSC, China Party does not have any unilateral right to cease or control the exploration and/or mining of CBM and/or liquid hydrocarbons covered by the PSC.

The JMC, being the committee which oversees the operation of the exploration under the PSC, has been formed as required under the PSC. Pursuant to the PSC, each party to the PSC shall have the right to appoint an equal number of representatives (two to five) to the JMC. The chairman of the JMC shall be the chief representative designated by China Party, and the vice chairman shall be the chief representative designated by TWE. As of the Latest Practicable Date, TWE had appointed three representatives and the China Party had appointed three representatives to the JMC, which are the number of voting members to the JMC (three from each party). The additional persons named to the JMC below are professional representatives of the parties and have no vote or specific responsibility to the operation of the JMC.

LETTER FROM OUR BOARD

Voting members of the JMC

| | |
|---------------------|--|
| JMC Chairman | Mr. Zhao Peihua (趙培華) |
| JMC Vice Chairman | Mr. Donald Downing* |
| JMC Representatives | Mr. Lin Jianhao (林建浩) Mr. Chan (陳榮謙)* Mr. Kuang Lichun (匡立春) Dr. Gorrell* |

Professional Representatives to the JMC (non-voting)

| | |
|---------------------------------------|---|
| Geological Representative | Mr. Xue Lie (薛冽) |
| Procurement Representative | Mr. Li Yancheng (李艷成) |
| Exploration & Drilling Representative | Mr. Wei Shuming (韋書銘) |
| Financial Representatives | Ms. Yang Wen (楊雯) Mr. Adrian Chan (陳弘俊)* |
| JMC Secretary | Ms. Liu Han (劉涵) Ms. Selina Zhang (張麗君)* |

(* represents TWE's representatives; the remaining members are representatives from China Party)

The PSC requires quarterly meetings to be held among the committee members who were authorised to represent their respective parties for, among others, the review and adoption of the work programs and budget, the approval of operating expenses, and the determination of the potential commerciality of each CBM discovery that has been made in accordance with TWE's pilot development report and the reporting of its decision to China Party for confirmation. During the exploration period and any extension thereof, the parties to the PSC shall endeavor to reach agreement through consultation on exploration programs and annual exploration work programs. If the parties fail to reach agreement through consultation within 30 days of commencement of the consultation, TWE's proposal shall prevail, provided that it is not in conflict with the provisions of the PSC. This illustrates the significant superior management role of TWE as the operator, and demonstrates that TWE has adequate rights to participate actively in and has sufficient influence in decisions over the exploration for and/or extraction of CBM and/or liquid hydrocarbons.

TWE is not required to separately apply for an exploration licence and/or production licence for its operation under the PSC, pursuant to the terms of the PSC. According to the PSC, all costs incurred at the exploration stage shall be borne by TWE. Upon submission of the overall development programme and approval by the relevant PRC governmental authorities, the operation shall enter into the stage of development and then into CBM production. All the development and operating costs shall be borne in

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the proportion of 47% by TWE and 53% by CUCBM. During the productions 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, which will be adjusted according to their respective actual participating interests in the CBM field.

Pursuant to the PSC, there is no government bureau which will have any unilateral right to terminate the PSC. The PSC shall be terminated under any of the following circumstances:

- Exercise of TWE's election to terminate the PSC at the expiration of the first phase and the second phase of the exploration period; or
- Failure to discover any commercial CBM reservoir within the contract area of the PSC by the expiration of the exploration period or the extended exploration period granted under the PSC; or
- If there is only one commercial CBM field in production in the contract area, on termination of the production period of such CBM field; or
- If there are two or more commercial CBM fields and/or CBM fields in production in the contract area, on termination of the production period of the CBM field with the latest termination date; or
- At the end of the last day of the 30th contract year from the date of commencement of the implementation of the PSC unless otherwise extended pursuant to the PSC; or
- Upon judgment of the court having jurisdiction, TWE ceases to exist in any form.

Also, before the expiration of the first phase of the exploration period, TWE shall not propose termination of the PSC unless TWE has fulfilled the minimum exploration work commitment for the first phase of the exploration period ahead of time.

If any party to the PSC commits a material breach of the PSC, the other party to the PSC shall have the right to demand that such breach be remedied within a reasonable period of time. Otherwise, the complaining party, arising from such breach shall have the right to terminate the PSC by giving 90 days' written notice to the other party.

Apart from the abovementioned circumstances, China Party shall have the right to terminate the PSC in case TWE failed to perform any of the following obligations:

- Payment of the signature fee pursuant to the PSC; or
- Fulfillment of the minimum exploration work commitment for any phase of the exploration period at the expiration such phase; or

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- Payment on schedule of the assistance fee, the fees for exploration and mining rights, payment on schedule of the personnel costs and other expenses as well as training of the Chinese personnel.

With the approval of the State-owned Assets Supervision and Administration Commission of the State Council and the acknowledgment of the Ministry of Land and Resources, CUCBM has agreed pursuant to a block allocation agreement between China Coal (the current holding company of CUCBM) and CNPC (the former shareholder of CUCBM) to transfer all of its interests and associated obligations with respect to certain gas fields in areas located in various provinces in the PRC (including those in the contract area covered by the PSC) to CNPC. Pursuant to the aforesaid block allocation agreement, CNPC's role in the PSC is the same as that of CUCBM immediately before the proposed transfer, including the right to apply for extension for the exploration period as well as key operating licenses. The formalities and regulatory approvals and consents necessary for the completion of such transfer of interests (including the PSC) are in process. As CUCBM and CNPC are large state-owned enterprises and the formalities and regulatory approvals involve liaisons with a number of Ministries, such as the Ministry of Commerce and the Ministry of Land and Resources, the completion of such formalities and regulatory approvals tends to take time.

We, by adopting such cooperation arrangement under the PSC in the exploration for and/or extraction of CBM and/or liquid hydrocarbons in the area covered by the PSC, are a genuine participant in the natural resources industry having adequate rights to participate in the exploration and/or extraction activities and to share the risks and profits of extraction pursuant to Rule 18.03(1) of the Listing Rules, and shall be regarded as a mineral company eligible for transfer of listing from GEM to the Main Board under Chapter 18 of the Listing Rules.

2. Contingent Resources

We have a portfolio of CBM Contingent Resources identifiable under NI 51-101 and COGE Handbook and substantiated in the Competent Person's Report set out in Appendix VI to this circular. Norwest Corporation is not aware of any material changes since the date of the Competent Person's Report.

Consistent with the reporting standard, a range of Contingent Resources was calculated and reported as 31.29 to 244.18 bcf with a best estimate of 68.26 bcf. NI 51-101 was set by the Canadian Securities Administrators as a disclosure standard for issuers who are reporting on their oil and gas activities. The standard incorporates the resource estimation procedures of the COGE Handbook prepared jointly by The Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society).

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Norwest Corporation is an internationally recognized leader in providing consulting expertise to the energy, mining, and natural resources industries for nearly 30 years and is a competent person which satisfies the requirements under Rules 18.21 and 18.22 of the Listing Rules. As our Directors are aware, in 2008 and 2009, Norwest Corporation has issued technical reports to SouthGobi Energy Resources Ltd., which shares are listed on the Main Board (Stock Code: 1878).

Source Rock Engineering is a petroleum engineering consulting firm specialising in field development planning for unconventional gas reservoirs. Engineering assignments focus on the scheduling, design and evaluation of natural gas exploration, pilot testing and commercial development programs for shale gas, coalmine methane and CBM and is a competent person which satisfies the requirements under Rules 18.21 and 18.22 of the Listing Rules. Source Rock Engineering's projects are found in several hydrocarbon producing states in the United States including the producing shale gas basins Barnett, Marcellus, Haynesville and Forest City as well as in Australia (Sydney, Bowen and Surat basins) and China. Clients include: ConocoPhillips, Admiral Bay Resources, WestSide Corporation, Missouri Basin Well Service Inc., Xstrata plc, NFR Energy, Anadarko Petroleum, Rio Tinto Mitsui USA and ENI S.p.A.

We have not yet begun production and we have set out our plans to proceed to production with indicative dates and costs, supported by a Scoping Study as substantiated by a competent person which satisfies the requirements under Rules 18.21 and 18.22 of the Listing Rules, details of which are set out in Appendix VII to this circular.

3. Working Capital Adequacy

Our Directors hereby confirm that the working capital for our Company and its subsidiaries is sufficient for 125% of our Group's present requirements, that is for at least the next 12 months from the date of the publication of the announcement under Rule 9A.08 of the Listing Rules.

RESPONSIBILITY STATEMENT

This circular, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

Yours faithfully,
For and on behalf of
Enviro Energy International Holdings Limited
Chan Wing Him Kenny
Chairman and Chief Executive Officer

To the best of our Directors' knowledge, our Directors consider the following risks and other factors to be the most significant in respect of our Group to the Shareholders and potential investors of our Company. However, the risks listed do not purport to comprise all those risks associated with our Group and are not set out in any particular order of priority. Additional risks and uncertainties not currently known to our Directors may also have an adverse effect on our Group's business. If any of the following risks actually occurs, our Group's business, financial condition, capital resources, results or future operations could be materially and adversely affected.

I. RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Conventional crude oil business

- (a) *Our oil business operations depend on the Joint Venture Contract with PetroChina. If we fail to maintain a continued good working relationship with PetroChina, our business, financial condition and results of operations may be materially and adversely affected*

On 29 February 2008, our Company acquired 50% of the equity interests of 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. Qian An is principally engaged in exploitation of petroleum resources activities and production of petroleum.

Pursuant to the Joint Venture Contract, among others, PetroChina is the operator of the producing oilfields owned by Qian An, which cover two formations, namely Qianshen-12 and Qian-209 ("**Qian An Oilfields**"), and encompass a total area of approximately 15 sq km in the Jilin Qian An area of the PRC; and our Company is responsible for raising capital to fund the operation of Qian An and any profits generated will be shared between the parties in equal shares.

As of the Latest Practicable Date, the average monthly combined crude oil production level of the Qian An Oilfields was maintained at approximately 10,000 barrels.

The success of our oil business and our growth depend to a significant extent on our working relationship with PetroChina. However, we cannot assure you that we will be able to maintain a good working relationship with PetroChina. For instance, if we fail to comply with the terms of the Joint Venture Contract in a timely manner or at all, our working relationship with PetroChina may be adversely affected. If PetroChina terminates the Joint Venture Contract, we cannot assure you that we will be able to secure a new joint venture arrangement in a timely manner or at all. In addition, any failure or undue delay by PetroChina to comply with the terms of any of the Joint Venture Contract, or its unwillingness to cooperate with us for any reason, may also have a material adverse impact on the success of our operations.

(b) Qian An is dependent on PetroChina as its sole customer

Pursuant to the terms of the Joint Venture Contract, Qian An is required to sell all crude oil produced from the Qian An Oilfields to the holding company of PetroChina. To date, PetroChina has been Qian An's sole customer, accounting for all of Qian An's sales in 2007, 2008 and 2009. Notwithstanding there was no provision under the Joint Venture Contract to allow PetroChina to reduce or discontinue its purchases of crude oil from Qian An, we cannot assure you that PetroChina will continue to purchase Qian An's crude oil in the future in the same quantity. If PetroChina significantly reduces or discontinues its purchases of crude oil from Qian An for any reason, our results of operation may be materially and adversely affected.

(c) Qian An's results of operations are affected by the volatility of prices of crude oil

Qian An's results of operations are significantly affected by crude oil prices. International prices for crude oil have fluctuated widely in recent years in response to changes in the supply of and demand for oil, market uncertainty and a variety of additional factors that are beyond our control, including political developments in petroleum-producing regions, the ability of the Organization of Petroleum Exporting Countries and other petroleum-producing nations to set and maintain production levels and prices, the price and availability of other energy sources, such as coal, domestic and foreign government regulation, and overall economic conditions. We do not and will not have control over the factors affecting international prices for crude oil. For example, crude oil prices reached a historical high in July 2008 but declined precipitously in the fourth quarter of 2008 and the first half of 2009 as a result of the global economic and financial crisis. As a result, Qian An's revenue has fluctuated significantly. Furthermore, Qian An's rate of recovery under the Joint Venture Contract, depreciation, depletion and amortization, and the amount of special levy paid or payable to the PRC government are affected by movements in crude oil prices. Crude oil prices recovered in the second half of 2009, but there is no guarantee that international prices of crude oil will remain at these levels and any future declines in international prices of crude oil will reduce Qian An's revenue. If the crude oil prices increase in the future, the costs of materials and well drilling services may also increase beyond our anticipation as a result of higher demand, which will materially and adversely affect our capital expenditures and results of operations.

Unconventional natural gas business

(d) Our ability to carry on business in Xinjiang is subject to political risk

The Liuhuanggou CBM Project lands are located in Xinjiang Uygur Autonomous Region which has been the scene of political unrest and local disturbances. Whilst our Company's CBM operations have not experienced incidences of unrest, the emergence of such political instability in the future may

lead to outbreaks of civil conflict which may have an adverse effect on our Company's CBM business and may affect our Company's overall financial position and operating results and profitability.

(e) Risks and uncertainties associated with estimates of CBM Resources

Estimates of CBM resources are not absolute and volumes of CBM actually produced may differ materially from estimates made prior to production. This includes Contingent Resources referred to in the Competent Person's Report. There are inherent uncertainties in estimating CBM resources/reserves, including the factors and variables described by and applied by the competent person. Any material differences may affect our Company's overall financial position and operating results and profitability.

(f) Development and operational risks

Our Company will be exposed to general exploration and hydrocarbon appraisal and development risks. These include unusual and unexpected geological formations, high formation pressures and other conditions involved in the exploration for and extraction of hydrocarbons, any of which could result in the damage to, or even destruction of, wells and or other production facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimise risk will be taken, operations are subject to hazards which may result in environmental pollution and consequent liability which could have an adverse impact on the business, operations and financial performance of our Group.

Exploration drilling to establish productive reserves is inherently speculative. The techniques presently available to technical specialists to identify the existence and location of resources are both direct and indirect and subject to a wide variety of variables some of which are subjective in nature. Our Company relies on objective data determined by qualified professionals using industry standard techniques but also relies on interpretation and extrapolation of data and analysis which include the risk of uncertainty and inaccuracy affecting future development plans and forecasts.

Although we have not commenced production, the future production phase by its nature also involves significant risks and hazards, including environmental hazards, industrial incidents, labour disputes, discharge of toxic chemicals, fire, drought, flooding and other occurrences outside our Groups' control. The occurrence of any of these risks and hazards can delay or interrupt exploration and production, increase exploration and production costs and result in liability to our Group. Our Group could become subject to liability for pollution or other hazards against which we have not insured or cannot insure, including those in respect of past activities for which we were not responsible for.

(g) Ability to implement work programme

The exploration period of the PSC covers five years which will expire on 28 February 2011 and therefore the exploration requires extension for the completion of

CBM pilot operations. Whilst the extension of the exploration period is strongly supported by the terms and conditions of the PSC and that our Company is confident that the PSC can be extended, a delay in the granting of an extension may delay our Company's programme and the move toward commercial development. Such delay could materially affect our Group's overall financial position, operating results and profitability. Nevertheless, our Company has been advised by our PRC legal advisors that there is no material legal impediment in renewing the exploration right under the PSC.

The period of extension shall be approved by the Ministry of Commerce of the PRC.

The overall development plan ("ODP") is a plan to be developed by TWE for the development of the CBM field in the PSC area and has to be approved by the relevant state authorities in order to progress from exploration stage into development stage. The details of an ODP are not described in the PSC and therefore there is an inherent uncertainty regarding the timely approval of such plan. The ODP submitted for approval may be revised from time to time to accommodate the comments from the relevant authorities so as to facilitate the approval process. In order for regulatory approval of the ODP to be sought it is expected that, TWE will need to have CBM transportation and sales arrangements in place, which will entail negotiations with relevant third parties the timing of the conclusion of which will be beyond our Company's direct control. Delay in the submission or approval of an ODP may lead to material differences in project plans and may affect our Company's overall financial position, operating results and profitability.

(h) Price regulation

Currently, the price of CBM is not regulated in the PRC. There is no assurance that the Chinese government will not introduce price regulation in the future which may have a material adverse impact on us.

(i) Competition

There are a number of CBM companies which operate in the PRC. Similar to us, these potential competitors entered the CBM market in the PRC in the form of production sharing contracts. Some of these potential competitors are international companies listed in overseas markets with market capitalization significantly higher than us. Some of these foreign companies also have longer operational history than us. Larger companies which have access to greater resources may have competitive advantages over us in competition for resources, facilities and in marketing for CBM produced. Moreover, there may be competition in skilled manpower which may be in short supply due to the rapid growth in demand in the industry. Any of these factors may have a material adverse impact on us.

(j) Uncertainties in CBM exploitation

The amounts of CBM resources in the PSC area may vary materially from the estimations by the Competent Person and there is no assurance that the exploration work to be performed by TWE will result in discovery of economically developable resources or the development of economic reserves. As a result, the CBM resources may not be ultimately extracted at a profit and there is no guarantee that our future CBM exploitation will be successful or profitable.

General

(k) Volatility of energy resource prices and currency risks

Historically, energy resource prices have fluctuated widely and affected by numerous factors over which we do not have any control, including, among others, world production level, international economic trends, currency exchange fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events. The aggregate effect of these factors is impossible to predict with any degree of certainty.

(l) Governmental policies and regulations

The oil and gas business is subject to extensive and rather strict governmental policies, laws, regulations and controls in the PRC. There can be no assurance that the relevant governmental authorities in the PRC will not change such policies, laws and regulations or impose additional or more stringent policies, laws or regulations. Failure to comply with the relevant policies, laws and regulations in the oil and gas development and natural resources production projects may adversely affect our Company's business, results of operations and financial condition.

(m) Significant and continuous capital investment

The oil and gas business requires significant and continuous capital investment. Major oil and gas exploration and exploitation projects may not be completed as planned, may exceed the original budgets and may not achieve the intended economic results or commercial viability. Actual capital expenditures for the oil and gas business may significantly exceed our Company's budgets because of various factors beyond our Company's control, which in turn may adversely affect our Company's financial condition.

(n) Environmental protection policies

The oil and gas exploration and exploitation business is subject to environmental protection law and regulations in the PRC. If our Group fails to comply with the existing or future environmental laws and regulations, our Group may be required to take remedial measures, which could have a material adverse effect on our Group's business, operations, financial condition and results of operations.

(o) Our operations may be adversely affected by the global and domestic economic conditions

Our results of operations are materially affected by economic conditions in China and elsewhere around the world. The oil and gas industry is sensitive to macroeconomic trends as oil and gas prices tend to decline in recessionary periods. Substantially all of our revenue is derived from sales of crude oil produced in the PRC. A global recession or an economic downturn in the PRC, as well as uncertainties regarding the future economic prospects of the PRC or major economies in the world, could depress oil and gas prices, and would likely have an adverse effect on our results of operations and financial condition.

Recent global economic conditions have been characterized by tight credit and recessionary trends in most major economies in 2009 and 2010. The negative economic outlook has affected business and consumer confidence. Any decline in oil or gas prices as a result of the economic downturn may negatively affect our results of operations. Continued turbulence in the international energy markets, as well as any slowdown of economic growth in the PRC, may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs.

II. RISKS RELATING TO CONDUCTING OPERATIONS IN THE PRC

(a) Our business, financial condition, results of operations and prospects could be negatively affected by the PRC's political, economic and legal developments and changes to government policies

A substantial part of our operating assets is located in the PRC and our revenues are substantially derived from our operations in the PRC. Our results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, the level of development, the growth rate, and government control of foreign exchange.

The PRC economy has traditionally been centrally planned. Since 1978, the PRC government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. We believe that we will benefit from the economic reforms implemented by the PRC government and its economic policies and measures. However, there is no assurance that the PRC government will continue to pursue economic reforms. In addition, while the PRC's economy has experienced significant growth in the last two decades, growth has been uneven across both geographic regions and the various sectors of the economy. Our business, results of operations, financial condition and prospect may be adversely

affected by the PRC government's political, economic and social policies, tax regulations or policies, and regulations affecting the industry.

(b) Our business could be negatively affected by changes and uncertainties in the PRC legal system

The PRC legal system is based on the civil law system. Unlike the common law system, prior legal decisions and judgments have limited significance for guidance. The PRC is still in the process of developing a comprehensive statutory framework. Since 1979, the PRC government has established a commercial law system, and has made significant progress in promulgating laws and regulations relating to economic affairs and matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in PRC may be protracted and could result in substantial costs and diversion of resources and management attention.

(c) Restrictions on foreign investments in the PRC mining industry could materially and adversely affect our business and results of operations

In the PRC, foreign companies have in the past been, and are currently, required to operate within a framework that is different from that imposed on domestic PRC companies. However, the PRC government has been opening up opportunities for foreign investment in petroleum and natural gas projects and this process is expected to continue, especially following the PRC's accession into the World Trade Organisation. However, if the PRC government should reverse this trend, or impose greater restrictions on foreign companies, or seek to nationalise our PRC operations, our business and results of operations could be materially and adversely affected.

(d) Economic, political and social conditions and government policies in the PRC

The economic system of the PRC is very different from the economies of developed countries in many respects, including government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the economy of the PRC has been transitioning from a planned economy to a more market-oriented economy in the past 20 years, the PRC government continues to play a significant role in regulating industry development. It also exercises significant control over the PRC's economic growth through allocation of

resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any changes to the political, economic and social conditions in the PRC or in the policies of the Chinese government may have a material adverse impact on our Group's business.

(e) PRC tax rules and regulations

The taxation system in the PRC is still developing, which may result in inconsistent enforcement at state and municipal levels. The PRC government has enacted a favourable tax regime to encourage the development and use of CBM. Any future changes in legislation, regulation or enforcement may have a material adverse impact on our Group.

III. RISKS RELATING TO OUR COMPANY

(a) Our future performance depends on our ability to retain key personnel

Our success would largely depend on the contributions and service of our key management and, in particular, our executive Directors and senior management team. Details of our Directors and senior management team are set out in Appendix III to this circular.

We believe that our experienced and dedicated management team has contributed to the significant growth of our business.

Our management team has been instrumental in our growth and expansion and is responsible for formulating our business growth and corporate development and strategies. It is also responsible for identifying overall business opportunities, recruiting new and capable staff and motivating our employees to achieve our corporate goals. The loss of any of these key management personnel without timely and suitable replacements and our inability to attract and retain qualified and experienced personnel could have an unfavourable impact on our Group's operations and financial performance.

(b) Limited operational history

We were originally engaged in the business of IT solutions and services in the past before we commenced our exploration activities during the Track Record Period. Our Group's operations are at an early stage of development and do not have established operating or trading records upon which its performance and prospects can be evaluated. Cash operating costs for development projects are, to a large extent, estimations and as a result, actual cash operating costs and economic return may differ from those estimated. As a result, our operating results during the Track Record Period are not indicative of future operating results and prospects for our environmental energy-related projects.

We have sought the following waivers from strict compliance with relevant provisions of the Listing Rules in relation to the Transfer:

I. MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, a new applicant for primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong and, in normal circumstances, at least two of the issuer's executive directors must be ordinarily residents in Hong Kong.

Our Directors, including the executive Director, Mr. Chan and the independent non-executive Directors, namely Mr. David Tsoi, Mr. Lo Chi Kit and Mr. Tam Hang Chuen are all Hong Kong residents. However, Dr. Gorrell, the other executive Director, is neither a Hong Kong resident nor based in Hong Kong. We do not have, and do not contemplate in the foreseeable future that we will have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules and thus we applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules on the following grounds:

- (a) since the principal business operations of our Group, which include the development of environmental energy-related projects involving conventional oil, unconventional natural gas and state-of-the-art oil and gas related environmental technologies, are primarily located and conducted in various places outside Hong Kong, in particular, in the PRC, Dr. Gorrell, jointly with other members of our Board, can still manage the business of our Group. Dr. Gorrell is and will therefore continue to be based in places outside Hong Kong;
- (b) Mr. Chan, the Chairman of our Board and an executive Director, and Ms. Mok Kam Sheung, our company secretary, are ordinary residents in Hong Kong; and
- (c) the management and operation of our Group has been under the supervision of the existing executive Directors and has proven to be effective. They are responsible for the day-to-day management of our Group's business. The appointment of an additional executive Director to reside in Hong Kong or the relocation of Dr. Gorrell to Hong Kong would not only increase our administrative expenses, but would also reduce the effectiveness and responsiveness of the decision-making process of our Board, especially when business decisions are required to be made within a short period of time.

We have received from the Stock Exchange a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) Mr. Chan, the Chairman of our Board, the Chief Executive Officer of our Company and an executive Director, and Ms. Mok Kam Sheung, our company secretary, who are both ordinary residents in Hong Kong and who will continue to act as our Authorised Representatives required under the GEM Listing Rules shall act as the principal channel of communication with the Stock Exchange. Each of our Authorised Representatives will be available to meet with the Stock Exchange within a reasonable period of time upon request and will be readily contactable by telephone, facsimile or email and is authorised to communicate on our behalf with the Stock Exchange;
- (b) both of our Authorised Representatives will have means to contact all members of our Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of our Board for any matters;
- (c) we shall promptly inform the Stock Exchange of any changes in our Authorised Representatives;
- (d) Dr. Gorrell, who is not an ordinary resident in Hong Kong has always travelled to Hong Kong and the PRC for meetings, conferences and site visits on many occasions and has confirmed that he will apply for valid travel documents to visit Hong Kong when so required and will be able to meet with relevant members of the Stock Exchange within a reasonable period of time, when required;
- (e) to further enhance communication between the Stock Exchange, our Authorised Representatives and our Directors, we have implemented a policy whereby (i) each Director will have to provide his mobile phone number, residential phone number, facsimile number (if any) and email address to our Authorised Representatives; (ii) in the event that a Director expects to travel and be out of office, he will have to provide the phone number of the place of his accommodation or other means of communications to our Authorised Representatives; and (iii) all Directors will provide their respective mobile phone numbers, office phone numbers, facsimile numbers (if any) and email addresses to the Stock Exchange; and
- (f) meetings between the Stock Exchange and our Directors could be arranged through our Authorised Representatives or directly with our Directors within a reasonable time frame.

II. BASIC CONDITIONS IN RELATION TO QUALIFICATION FOR LISTING

Pursuant to Rule 8.05 of the Listing Rules, an issuer must satisfy one of the three tests in relation to: (i) profit; (ii) market capitalisation, revenue and cash flow; or (iii) market capitalisation and revenue requirements. Under Rule 18.04 of the Listing Rules, the requirements of Rule 8.05 of the Listing Rules may not apply if the Stock Exchange is satisfied that the directors and senior managers of the issuer, taken together, have sufficient experience of at least five years relevant to the exploration and/or extraction activities the issuer is pursuing.

As demonstrated by the information in Appendix III to this circular, our Board believes that our executive Directors together with members of senior management (i) have extensive experience in the exploration and/or extraction activities that we are pursuing; and (ii) have at least five years of experience in oil and CBM exploration and extraction activities which is specific to the particular line of business and industry that we are pursuing in support of an application for a waiver pursuant to Rules 8.05 and 18.04 of the Listing Rules. Further details of the experiences of our Directors and senior management are set out in Appendix III to this circular.

In view of the above, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.05 of the Listing Rules in accordance with the reasoning under Rule 18.04 of the Listing Rules.

III. INCLUSION OF AN ACCOUNTANTS' REPORT

Our Directors are aware of the requirements of paragraph 37 of Appendix 1A to the Listing Rules, which states that a company is required to include in its circular an accountants' report in accordance with Chapter 4 of the Listing Rules.

Our Company is currently applying for the Transfer under Chapters 9A and 18 of the Listing Rules. Taking into account (i) the general principle that GEM transfer listing application should be based on the transfer applicant's existing public disclosures and it is unnecessary for it to reproduce any published information in its circular or listing documents; (ii) our consolidated assets and liabilities as shown in our latest financial statements will be the same before and after the Transfer; and (iii) all of the required financial information has already been published in accordance with the Listing Rules and is readily accessible by investors on the websites of the Stock Exchange and our Company, balancing the costs and benefits of reproducing this information, the inclusion of the previous published accountants' reports of our Company in this circular is not considered as meaningful and will not provide additional significant information for investors. It is proposed that our Company be allowed to simply refer in this circular to the existing published financial information, instead of reproducing the financial information in this circular. Our Company has applied for and the Stock Exchange has granted a waiver from strict compliance with paragraph 37 of Appendix 1A to the Listing Rules to include an accountants' report in accordance with Chapter 4 of the Listing Rules in this circular.

I. DIRECTORS

Our Board consists of two executive Directors and three independent non-executive Directors. The following table sets forth certain information in respect of our Directors:

(a) Directors

| Name | Age | Residential/ Business Address | Nationality |
|--|-----|---|-------------|
| <i>Executive Directors</i> | | | |
| Mr. Chan | 60 | G/F., 101 Yu Chau Street, Sham Shui Po, Kowloon, Hong Kong | Chinese |
| Dr. Gorrell | 65 | 64 Tsawwassen Beach Road, Delta, British Columbia, Canada V4M 4C6 | Canadian |
| <i>Independent non-executive Directors</i> | | | |
| Mr. David Tsoi | 63 | 10 Mount Butler Road, 2nd Floor, Jardine's Lookout, Hong Kong | Chinese |
| Mr. Lo Chi Kit | 50 | Flat 'A', 7 Floor, Block 9, Monte Vista, Ma On Shan, New Territories, Hong Kong | Chinese |
| Mr. Tam Hang Chuen | 55 | 27C, Block 2, Sea Crest Villa, 18 Castle Peak Road, Tsing Lung Tau, New Territories, Hong Kong | Chinese |

(b) Executive Directors

Mr. CHAN Wing Him Kenny, aged 60, has joined us since 29 November 2006 as our executive Director, the chairman and chief executive officer. In addition, Mr. Chan is a member of our Management Committee as well as the chairman and a member of our Remuneration Committee. Mr. Chan has over 30 years of experience in the international oil and gas industry in Western Canada, the Middle East and the PRC. Mr. Chan has extensive experience in non-conventional oil and gas production specialising in CBM through his directorship in Petromin. He also has vast knowledge and experience in the field of CO₂ injection used to enhance production of CBM with field experiences. Mr. Chan is a member of The Hong Kong Institute of Directors. Mr. Chan has a deep understanding of the upstream natural resources industry which spans over 30 years and has a reputed track record of structuring successful resources companies in the past and present. He also has extensive overseas networks and close relationships with business and financial communities in the energy sector in North America and Asia.

Mr. Chan has substantial contribution to the mining and exploration of natural resources industry; he advocates setting trends and capitalizing on world markets through the application of innovative resources technologies. With an extensive knowledge of industry needs and market demands, Mr. Chan continues to raise the bar and set new standards for resources companies around the world. Equipped with the relevant expertise and technical knowledge in the oil and gas mining and exploration activities, in particular, the ability in studying various technical, expert and research reports, assessing projects from their technical and commercial perspectives such as geological setting, resource potential, commercial viability, technological understanding and application, marketability, supply and demand, demographics, government policy and political viability, Mr. Chan has extensive experience and a track record in identifying and sourcing potentially lucrative and commercially as well as technically viable exploration and/or exploitation projects for various natural resources companies and successfully putting them into commercial production projects capable of earning revenue.

In 2001, Mr. Chan received an award for his contribution to “The Banff Centre’s Aboriginal Leadership and Management Program” at Banff, Alberta, Canada for his vision and support through Petromin and on 16 December 2000, he received the Frog Lake Nation’s “Eagle Award” in “Appreciation for Outstanding Contribution” to the Frog Lake Community of Alberta, Canada through Petromin’s efforts to co-develop with Frog Lake Energy Corp., a successful multi-well heavy oil program that was still in production as of the Latest Practicable Date, setting a precedent in structuring joint venture working relationships with the Frog Lake First Nation Indian Band in Alberta, Canada.

Pursuant to the service contract between Mr. Chan and us, the length of service of Mr. Chan with us is for a term of three years and is subject to retirement by rotation and re-election in accordance with our Articles. The remuneration of Mr. Chan is approximately HK\$10,467,000 per annum (which includes basic salary and allowances) and such amount of discretionary bonus which we may decide to pay. Such remuneration is determined with reference to the prevailing market conditions and his respective roles and responsibilities.

As of the Latest Practicable Date, Mr. Chan had (i) corporate interests, held through Colpo, in 1,185,680,000 Shares, including 200,000,000 Shares of short position, representing approximately 42.69%, including approximately 7.2% of short position, of our issued share capital, respectively; (ii) personal interests in 8,834,000 Shares and 28,847,200 Options, representing approximately 0.32% and approximately 1.04% of our issued share capital, within the meaning of Part XV of the SFO. Save as disclosed, Mr. Chan is not connected with any of our Directors, senior management, substantial Shareholders or Controlling Shareholders and their respective Associates.

Further details of the experiences of Mr. Chan are set out below:

Term of office: 1993 – 1999

Company: Tartan Energy Inc. (formerly known as United
Compass Resources Inc.)

Last Position Held: Director

Past Experiences or
Responsibilities: Equipped with the oil and gas exploration expertise
and technical knowledge, Mr. Chan was responsible
for sourcing natural resources projects. He had
assisted CNPC (Hong Kong) Limited, in sourcing and
structuring business opportunities in Indonesia, e.g. a
pipeline project, and advised on tendering process in
Indonesia.

Term of office: 1999 – present

Company: Petromin

Position Held: Director and Co-chairman

Experiences or
Responsibilities: Mr. Chan is responsible for Petromin’s direction and
overall strategy and its project execution including
geological exploration, mining and processing,
regulatory compliance, safety and environmental
protection, product sales and daily operation and
management etc.

Mr. Chan, together with Dr. Gorrell, direct Petromin
to lead the way in technologically innovative methods
designed to significantly improve reserves of existing
oil pools (EOR) and to enhance the recovery of CBM
while significantly minimizing GHG emissions. They
also aim to implement projects that enhance oil
recovery and extract CBM while significantly
lowering CO₂ GHG emissions in the PRC by applying
the latest CCS technology.

They also negotiated with Indian Oil and Gas Canada
and Frog Lake First Nation Indian Band in Central
Alberta, Canada for Petromin’s multi-well Heavy Oil
(11° API) Production Project at Frog Lake, Alberta.
They were pioneers in assisting the Indian Bands to
hold equities under their resources projects in
Canada. Jointly with Dr. Gorrell, Mr. Chan evaluated
the Frog Lake Heavy Oil Prospect using a new type of
satellite imagery which led to the successful heavy oil
project that Petromin operates to this day and has
received recognition from the Frog Lake Nation for
outstanding contribution to the community.

Further, the two Directors were instrumental in securing and executing various projects, one of which was the first ever project licensed to operate within the city limits next to Edmonton, Alberta. Production reached in excess of 2,000 barrels of oil per day.

Term of office: 2006 – present

Company: Our Company

Position Held: Executive Director, Chairman and Chief Executive Officer of our Company, Chairman and member of our Remuneration Committee, member of the Management Committee, Compliance Officer and Authorised Representative

Experiences or Responsibilities: Mr. Chan is responsible for our Group's overall management, business planning, strategy and their executions.

Since Mr. Chan acquired our Group through Colpo, he has progressively turned our Company into an energy holdings company. Mr. Chan is active in building a strong and solid management team for our Group and successfully secured various energy-related projects for our Group within a short period of time, in particular:

- (i) the Liuhuanguo CBM Project, through the indirect acquisition of TWE in October 2008;
- (ii) the investment in Qian An (with producing oilfields) in February 2008; and
- (iii) the Deep Unmineable Coal Carbon Dioxide Sequestration and Enhanced CBM Production Project ("ECBM Project") in January 2008.

Under the leadership of Mr. Chan, in recognition of our Group's excellent performance in the areas of management and contribution to advancements of the oil and gas industry, in particular, our Group's continued effort in environmental protection and reduction of CO₂ emission, in January 2008, we were honoured with the "Great Potential Energy Enterprise" award in the "8th Capital Outstanding Enterprise Awards" presented by Capital magazine, a prominent financial magazine in Hong Kong.

Term of office: 2007 – present

| | |
|----------------------------------|---|
| Company: | TWE |
| Position Held: | Director and Co-chairman |
| Experiences or Responsibilities: | Mr. Chan is responsible for TWE’s direction and overall strategy and its execution including geological exploration, mining and processing, regulatory compliance, safety and environmental protection, product sales and daily operation and management etc. |

In collaboration with our executives, Mr. Chan has overseen a two-well program of drilling activity and testing in the PSC area in 2008 and the geological survey of target areas, seismic geophysical survey and drilling of selected locations to confirm gas contents of coal seams, sample deeper prospective formations, confirm formation thickness and confirm the prospectivity of the J1B in the PSC area in 2009 (“**2009 Exploration Program**”), and has planned and strategized the pilot production program in the PSC area in 2010 (“**2010 Program**”).

Dr. Arthur Ross GORRELL, aged 65, was appointed as a non-executive Director on 1 December 2007 and has been re-designated as our executive Director since June 2008. Dr. Gorrell is a member of the Management Committee. He is responsible for business expansion and development of our Group.

Graduating with honours, Dr. Gorrell received his Doctorate in Dental Surgery from the University of Alberta, Edmonton, Canada in 1968, and completed his pre graduate Basic Science Studies at the University of Calgary, Canada in 1963.

Dr. Gorrell has over 40 years of experience in the management and business development for resources and energy related industries and has served as director, officer and controlling principal of many successful mining and oil and gas ventures listed on the Toronto Stock Exchange Venture Board. Dr. Gorrell is highly respected by his peers and is a reputed oil man well recognised in Canada for his extensive knowledge in the oil and gas industry. In 2001, Dr. Gorrell received an award for his contribution as an honorary speaker and contributor to “The Banff Centre’s Aboriginal Leadership and Management Program” at Banff, Alberta, Canada for his vision and support through Petromin, and on 16 December 2000, he received the Frog Lake Nation’s “Eagle Award” in “Appreciation for Outstanding Contribution” to the Frog Lake Community of Alberta, Canada through Petromin’s efforts to co-develop with Frog Lake Energy Corp., a successful multiwell heavy oil program that was still in production as of the Latest Practicable Date, setting a precedent in structuring joint venture working relationships with the Frog Lake First Nation Indian Band in Alberta. He has worked with and developed numerous contacts in various financial and resource-related fields.

Dr. Gorrell has actively involved in the reorganisation and restructuring of resources companies, and has aided in bringing many to the public stock exchanges, while acting in various executive capacities and directorships, such as RIA Resources Corp. (formerly known as Epic Oil and Gas Limited) (1977 to 1990). His initial experience in the oil business was with Hub Oil Company Limited (1960 to 1963), an oil refinery started by his father in Calgary, Alberta, Canada. Dr. Gorrell was responsible for retail sales and plant efficiency and he set up the company's in-house laboratory facilities to test the company's refined retail products for viscosity, purity, SAE ratings etc. Apart from technical expertise and experiences derived from his family businesses, Dr. Gorrell then started his first private oil and gas company in 1977 with his father by incorporating Epic Resources Ltd. from 1977 to 1980 when a portion of its producing oil and gas assets was sold at a substantial profit to a German Drilling Fund.

Same as Mr. Chan, Dr. Gorrell is equipped with specific expertise and technical knowledge in the oil and gas mining and exploration activities (i.e. ability in studying expert report, research report, feasibility study report and accessing projects from their technical and commercial perspectives) through the extensive knowledge gained from his 40 plus years of experience in serving in various directorships and executive positions of active mining and oil and gas production resource companies. Dr. Gorrell was responsible for identifying and sourcing potentially lucrative and commercially as well as technically viable exploration and/or exploitation projects for various natural resources companies and successfully putting them into commercial production projects capable of earning revenue. Dr. Gorrell brings vast experience in geological evaluations of resource properties in Canada to our Group.

Pursuant to the service contract between Dr. Gorrell and us, the length of service of Dr. Gorrell with us is for a term of three years and is subject to retirement by rotation and re-election in accordance with our Articles. The remuneration of Dr. Gorrell is approximately HK\$511,000 plus discretionary year-end bonus per annum, which is determined on the basis of prevailing market conditions and his respective roles and responsibilities.

As of the Latest Practicable Date, other than holding 2,625,000 Shares and 5,200,000 Options, representing approximately 0.09% and approximately 0.19% of our issued share capital, Dr. Gorrell was not interested in our Shares within the meaning of Part XV of the SFO. Save as serving in the management of Petromin together with, among others, Mr. Chan, a director and, co-chairman of Petromin, and our executive Director, the Chairman and Chief Executive Officer, Dr. Gorrell is not connected with any of our Directors, senior management, substantial Shareholders or Controlling Shareholders and their respective Associates.

Further details of the experiences of Dr. Gorrell are set out below:

Term of office: 1990 – present

Company: Petromin

Position Held: Director, Co-chairman, President, Chief Executive Officer

Experiences or Responsibilities: Dr. Gorrell is the founder of Petromin and is responsible for the overall management and business resource development of Petromin, both domestically and internationally. Petromin is one of the key evidences showing that natural resources companies under the joint management of Mr. Chan and Dr. Gorrell can be translated into a commercially productive entity capable of earning revenue.

Dr. Gorrell, together with Mr. Chan, negotiated with Indian Oil and Gas Canada and Frog Lake First Nation Indian Band in Central Alberta, Canada for Petromin’s multi-well Heavy Oil (11° API) Production Project at Frog Lake, Alberta, were pioneers in assisting the Indian Bands to hold equities under their resources projects in Canada. Jointly with Mr. Chan, Dr. Gorrell evaluated the Frog Lake Heavy Oil Prospect using a new type of satellite imagery which led to the successful heavy oil project that Petromin operates to this day and has received recognition from the Frog Lake Nation for outstanding contribution to the community.

Dr. Gorrell, jointly with Mr. Chan, were instrumental in securing and executing various projects for Petromin, namely, the Gilby Natural Gas Project, the Morningside Gas Project and the Redwater Oil Project. They also evaluated and involved Petromin in and introduced horizontal drilling in the Chamberlain Horizontal Drilling Project in Central Alberta which was the first ever project licensed to operate within the city limits next to Edmonton, Alberta. Production reached in excess of 2,000 barrels of oil per day.

Dr. Gorrell and Mr. Chan were instrumental in enlisting the services of AITF to Petromin. On 10 October 2006, Petromin entered into a technical cooperation agreement with AITF in respect of the application of AITF's CO₂ sequestration technology and expertise in oil pools and deep coalbed for enhanced oil recovery.

Jointly with Mr. Chan, they were instrumental in the acquisition of a substantial interest in TWE, now a subsidiary of our Company.

Term of office: 2007 – present

Company: TWE

Position Held: Director, Co-chairman, President and Chief Executive Officer

Experiences or Responsibilities: Dr. Gorrell is responsible for the overall operations of TWE. He meets regularly with the appointed vice-chairman of the JMC. Jointly with Mr. Chan and Mr. Donald O. Downing, Dr. Gorrell has participated in and monitored the planning of exploration programs, including the 2008 Drilling Program, the 2009 Exploration Program and has planned and strategized the 2010 Program.

Term of office: 2007 – present

Company: Our Company

Position Held: Executive Director and member of the Management Committee

Experiences or Responsibilities: Dr. Gorrell assists in business expansion and development of our Group.

Jointly with Mr. Chan, he oversees the oil and gas operations of our Group, in particular, he is responsible for negotiations with CUCBM at the Joint Project Steering Committee meetings regarding the ECBM Project, and he has worked closely with PetroChina in the development of the Qian An Oilfields. In addition, Dr. Gorrell is responsible for operations of our subsidiary, TWE and holds the positions of director, co-chairman, president and chief executive officer of TWE.

(c) **Independent non-executive Directors**

Mr. David TSOI, aged 63, has joined us as an independent non-executive Director since 8 July 2008. Mr. Tsoi is also the chairman and a member of our Audit Committee. In addition, he is the managing director of Allcott, Tsoi CPA Limited and an independent non-executive director of MelcoLot Limited (which shares are listed on GEM) and CSR Corporation Limited (which shares are listed on the Main Board). Mr. Tsoi obtained a master's degree in business administration from the University of East Asia, Macau (currently known as University of Macau) in 1986. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is also a member of the Institute of Chartered Accountants of England and Wales, the Society of Chinese Accountants and Auditors, the Certified General Accountants Association of Canada and Macau Society of Certified Practising Accountants.

Pursuant to the service contract between Mr. Tsoi and us, the length of service of Mr. Tsoi with us is for a term of two years and is subject to retirement by rotation and re-election in accordance with our Articles. The remuneration of Mr. Tsoi is approximately HK\$223,000 per annum which is determined with reference to the prevailing market conditions and his respective roles and responsibilities.

As of the Latest Practicable Date, other than holding 1,000,000 Options, representing approximately 0.04% of our issued share capital, Mr. Tsoi was not interested in our Shares within the meaning of Part XV of the SFO and was not connected with any of our Directors, senior management, substantial Shareholders or Controlling Shareholders and their respective Associates.

Mr. LO Chi Kit, aged 50, has joined us as an independent non-executive Director since 20 December 2006. Mr. Lo is also a member of our Audit Committee and 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.

Pursuant to the service contract between Mr. Lo and us, the length of service of Mr. Lo with us is for a term of two years and is subject to retirement by rotation and re-election in accordance with our Articles. The remuneration of Mr. Lo is approximately HK\$198,000 per annum, which is determined on the basis of prevailing market conditions and his respective roles and responsibilities.

As of the Latest Practicable Date, other than holding 700,000 Options, representing approximately 0.03% of our issued share capital, Mr. Lo was not interested in our Shares within the meaning of Part XV of the SFO and was not connected with any of our Directors, senior management, substantial Shareholders or Controlling Shareholders and their respective Associates.

Mr. TAM Hang Chuen, aged 55, has joined us as an independent non-executive Director since 20 December 2006. Mr. Tam is also a member of our Audit Committee and Remuneration Committee, respectively. He is a businessman with more than 23 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.

Pursuant to the service contract between Mr. Tam and us, the length of service of Mr. Tam with us is for a term of two years and is subject to retirement by rotation and re-election in accordance with our Articles. The remuneration of Mr. Tam is approximately HK\$150,000 per annum, which is determined on the basis of prevailing market conditions and his respective roles and responsibilities.

As of the Latest Practicable Date, other than holding 1,000,000 Shares and 200,000 Options, representing approximately 0.04% and approximately 0.01% of our issued share capital, Mr. Tam was not interested in our Shares within the meaning of Part XV of the SFO and was not connected with any of our Directors, senior management, substantial Shareholders or Controlling Shareholders and their respective Associates.

Save as disclosed above, none of our Directors has a service contract with us which is not determinable by us within one year without payment of compensation, other than statutory compensation.

Save as disclosed above, there is no other information in respect of our Directors to be disclosed pursuant to Rules 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention of our Shareholders.

II. SENIOR MANAGEMENT

The following table sets forth certain information in respect of our management:

| Name | Age | Residential/ Business Address | Management Position |
|-----------------------------|------------|--|--|
| Mr. Donald O. Downing | 62 | Unit 806, Level 8, Core D, Cyberport 3, 100 Cyberport Road, Hong Kong | Senior Vice President |
| Mr. LI Yutang | 68 | <i>ditto</i> | Chief Engineer |
| Dr. William D. GUNTER | 68 | <i>ditto</i> | Member of the International Advisory Board |
| Mr. YIP Ting Keung David | 40 | <i>ditto</i> | Corporate Finance Director |

| | |
|--------------|--|
| APPENDIX III | DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES |
|--------------|--|

| Name | Age | Residential/ Business Address | Management Position |
|----------------------------------|-----|----------------------------------|---------------------------------------|
| Mr. CHAN Wan Tsun Adrian Alan | 32 | <i>ditto</i> | Chief Financial Officer |
| Ms. MOK Kam Sheung | 51 | <i>ditto</i> | General Counsel, Company Secretary |
| Mr. Jiuhong GUO | 52 | <i>ditto</i> | Senior Advisor of TWE |

Mr. Donald O. DOWNING, aged 62, joined us as vice president on 13 May 2008 and has been re-designated as senior vice president since 1 April 2010. Mr. Downing has been responsible for strategic planning and operations with responsibility for international commodity marketing and business development for all CBM and related activities of our Group. Mr. Downing has over 35 years of experience in international marketing and business development for large corporations and management consultancy to the energy industry. He has been responsible for negotiations involving hundreds of millions of dollars of value with clients in large-scale corporations abroad.

He received a Master of Science degree in Business from Pepperdine University in 1991, a Master of Science degree in Mineral Economics from McGill University in 1977, a Bachelor of Arts degree in Economics in 1974 and a Bachelor of Science degree in Geology from University of New Brunswick in 1971. He is a fellow of the Canadian Institute of Mining and Metallurgy (FCIM) and is regarded as an international energy industry expert knowledgeable about all aspects of Canadian coal industry development including exploration, mining, transportation, further processing, future development trends including CBM development. His career focus is executive management, strategic planning, international commodity marketing, and international business development.

Prior to his appointment with our Group, he had held various directorships in energy companies and energy-related research institute and associations, such as Outrider Energy Ltd., NRL Energy Ltd., Norwest Corporation, Canadian Energy Research Institute, Coal Association of Canada, Energy Council of Canada, and Private Energy Research Association. He is also a member of various industry advisory and national committees, namely Marine Advisory Board of the Canadian Coast Guard Department Fisheries and Oceans, Port Advisory Committee to Vancouver Port Authority, Alberta Chamber of Resources Climate Change Committee, and Mining Association of Canada Climate Change Committee.

Previously he was head of the Coal Division of Esso Resources Canada Ltd., and president and Chief Executive Officer of Byron Creek Collieries, a unit of Esso Resources Canada Ltd. He also served as president of the Coal Association of Canada for six years since 1993 and was subsequently appointed as vice president and director of Norwest Corporation, a global energy/mining consulting company, where he led Norwest Corporation's business advisory services in relation to resource industry mergers, acquisitions and divestment, as well as market and financial analyses. With expert colleagues, Mr. Downing has founded successful CBM and natural gas exploration

companies in Canada and was a founding director, president and managing director of TWE, where he remains a director. He led the executive management of the business, with responsibilities that included negotiating and concluding the PSC with CUCBM, financing the business operations in the PRC, and leading the execution of business plans.

Mr. Downing brings over 35 years of leadership experience in executive management, international business development and energy commodities marketing in over 20 countries around the world and his leadership experience in projects management and consulting and advisory services to corporations to our Group.

Further details of the experiences of Mr. Downing are set out below:

| | |
|---------------------|---|
| Term of office: | 2003 – present |
| Company: | TWE |
| Position Held: | Director |
| Past Position Held: | Founding director and president and managing director (2003 – 2007) |

| | |
|----------------------------------|---|
| Experiences or Responsibilities: | Mr. Downing is vice-chairman and TWE’s chief representative to the JMC. Mr. Downing had led the executive management of the business, with responsibilities that included evaluation of prospective CBM lands in the PRC, acquiring lands, negotiating contracts, planning of investments, financing the business operations in the PRC, and leading the execution of business plans and designing exploration program. He had reviewed and assessed potential CBM project acquisition in Ordos Basin, Shanxi, PRC. |
|----------------------------------|---|

He successfully negotiated the PSC with CUCBM and is the leader of CBM operations for the Liuhuanggou CBM Project, planning of investments, exploration program, government relations and service contracting. Mr. Downing was in charge of the 2008 Drilling Program and is the leader of the 2009 Exploration Program and the 2010 Program.

| | |
|-----------------|-----------------------|
| Term of office: | 2008 – present |
| Company: | Our Company |
| Position Held: | Senior Vice President |

| | |
|----------------------------------|---|
| Experiences or Responsibilities: | Mr. Downing is mainly responsible for strategic planning for international commodity marketing and business development for all CBM and related activities of our Group in collaboration with our executives developing and implementing energy asset investment strategy, assisting in financing energy investments and liaising with companies publics including public speaking to promote our corporate relations and business development. Further, Mr. Downing is also responsible for reviewing and evaluating potential coal mining and CBM investments in Indonesia; and potential CBM company acquisition in Canada; CBM investment opportunity in Oregon, USA and representing us on the Joint Project Management Committee of the ECBM Project to plan development of the ECBM Project in Quinshi Basin of Shanxi, the PRC. |
|----------------------------------|---|

Mr. Yutang LI, aged 68, joined our Group as a chief engineer in August 2008. Mr. Li was appointed as a director of Qian An in September 2009. Mr. Li is responsible for providing technical advice on oilfield development, in particular, to the Qian An Oilfields and our Group’s future expansion in the oil and gas industry in the PRC. Mr. Li graduated from Beijing Institute of Petrochemical Technology in 1968, majoring in oil and gas field exploration. Over the past four decades, Mr. Li spent most of his time in the development and production areas of the oil and gas sector, which earned him a wealth of solid experiences in the gas and oil industry in the PRC and overseas.

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 oil and gas industry in the PRC, 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 in recognition of his outstanding contributions, entitling him to receive Special Government Allowance since 1994 and Mr. Li was promoted to a senior engineer at professor-level in 1999.

Further details of the experiences of Mr. Li are set out below:

| | |
|---------------------------------------|--|
| Term of office: | 1981 – 1996 |
| Company: | Zhongyuan Oilfield of CNPC (including Zhongyuan Oilfield Oil Extraction Technology Research Institute) |
| Last Position Held: | Vice Director and Senior Engineer of Zhongyuan Oilfield Oil Extraction Technology Research Institute |
| Past Experiences or Responsibilities: | Mr. Li was responsible for the operations, workover and designs of oilfields. |

Mr. Li was responsible for the overall scientific research and production work of the research institute. He had been in charge of 56 scientific research projects, conducted various on-site oilfield researches and, among which, promoted the application and usage of the gas-leak detection and treatment system. Mr. Li had provided training on fracturing design at the headquarters of Halliburton, USA in 1985.

| | |
|---------------------------------------|---|
| Term of office: | 1996 – 1998 |
| Company: | Talara Oilfield in VI, VII Region, Peru |
| Last Position Held: | Chief Technical Supervisor |
| Past Experiences or Responsibilities: | Mr. Li was responsible for technical research and provision of technical support in the areas of drilling, workover and production. |
| Term of office: | 1998 – 2005 |
| Company: | CNPC America Ltd. in Venezuela |
| Last Position Held: | Advisor to President |
| Past Experiences or Responsibilities: | Mr. Li was responsible for the operations, workover, designs as well as the provision of production, technology and technical support for two oilfields in Venezuela. |
| Term of office: | 2008 – present |
| Company: | Our Company |
| Position Held: | Chief Engineer |
| Experiences or Responsibilities: | Mr. Li is responsible for providing technical advice on oilfield development, in particular, to the Qian An Oilfields, and our Group's future expansion in the oil and gas industry in the PRC. |
| Term of office: | September 2009 – present |
| Company: | Qian An |
| Position Held: | Director |
| Experiences or Responsibilities: | Mr. Li is responsible for providing technical advice on oilfield development to the Qian An Oilfields and liaison with PetroChina. |

Dr. William D. Gunter, aged 68, was appointed as a member of our International Advisory Board in September 2009. Dr. Gunter is responsible for providing expert advice to our Board in the areas of sustainable energy development and related technologies related to enhanced oil and unconventional gas production and CO₂ storage, new business development in Asia related to CCS, and specialised expertise in science, economics and engineering as related to CCS. Dr. Gunter is an internationally eminent scientist and an acknowledged leader in the field of CCS. Dr. Gunter has a wealth of experience in the CCS industry, an important and rapidly growing business for us. His expertise is in geochemical processes (stressing use of field data, experiments and modelling) as they impact on the environment, and on the oil and gas industry. Dr. Gunter brings a unique combination of skills, experience and independent thinking that is invaluable as we further develops our global capabilities.

Dr. Gunter obtained a Bachelor of Science degree and a Master of Science degree in Geology from the University of New Brunswick in 1964 and 1967, respectively, and a Doctor of Philosophy degree in Geochemistry from Johns Hopkins University in 1974. He previously taught at the University of Wyoming; was a Research Fellow at Eidgenössische Technische Hochschule, Switzerland and a Distinguished Scientist at the Alberta Research Council, Canada, and served terms as Adjunct Professor at both the University of Alberta and the University of Calgary and is active as an international consultant on CCS projects across Canada and the US as well as continents around the world, including Europe, Asia and Australia.

Over the past 15 years, Dr. Gunter has been leading combined industry-government funded projects for geological storage of CO₂ and hydrogen sulfide (H₂S) in aquifers, oil reservoirs and coal beds. Additionally, Dr. Gunter has contributed to more than 80 publications on CCS and GHG emissions. He served as member of Canada's Technology Issues Table on GHG emissions and co-chaired the Canadian Capture and Geological Storage Roadmapping consultations which led to the production of two key reports which contained the elements of a plan for commercialisation of CCS in Canada and formed part of the basis for the Canadian Roadmap for CCS. Dr. Gunter was a lead author on the Intergovernmental Panel on Climate Change ("IPCC") special report on CCS, released in December 2005 and he subsequently received recognition from the IPCC for contributing to the award of the Nobel Peace Prize for 2007 to the IPCC.

During 2007, he was a member of the Technology Working Group of the Canadian Federal-Provincial ecoENERGY Task Force and in 2008 served as a member of the Government of Alberta Working Group on Capture & Geological Storage of GHG Emissions as well as the Alberta Energy Strategy Advisory Committee. Dr. Gunter is currently registered as a professional geologist with APEGGA (an association which registers, sets practice standards and determines disciplinary actions for Professional Engineers, Geologists, and Geophysicists in Alberta), Society of Petroleum Engineer (a professional organization which provides a worldwide forum of oil and natural gas exploration and production professionals for the exchange of technical knowledge) and the International Association of GeoChemistry (an organization which promotes the application of chemistry to geology through sponsoring scientific conferences and educational activities, establishing internal specialty-area working groups, and disseminating new geochemical knowledge through scientific publishing).

Dr. Gunter has received awards from:

- (i) the Carbon Sequestration Leadership Forum in recognition of his CO₂-ECBM Micro-Pilot field tests in Canada and PRC;
- (ii) the Alberta Emerald Foundation for research and innovation in CCS;
- (iii) the Seniors Association of Greater Edmonton for science and technology; and
- (iv) the International Energy Agency GHG Research and Development Programme in recognition of his lifetime work on GHG mitigation in the oil and gas industry.

In 2008 he was identified as one of Alberta's 50 Most Influential People by Alberta Venture Magazine.

Further details of the experiences of Dr. Gunter are set out below:

| | |
|----------------------------------|--|
| Term of office: | 1998 – present |
| Company: | G BACH Enterprises Incorporated, an oil and gas consultancy company |
| Position Held: | Chief Executive Officer |
| Experiences or Responsibilities: | Dr. Gunter has been providing advice to the oil and gas industry and government on geological storage of CO ₂ . |
| Term of office: | 1999 to present |
| Company: | Geochemical Applications and Modelling Software Ltd. |
| Position Held: | Secretary Treasurer and Chief Financial Officer |
| Experiences or Responsibilities: | Dr. Gunter is responsible for furthering the company's geochemical software development and sales. A relevant application of the geochemical software is to evaluate the security of geological storage of CO ₂ . |
| Term of office: | 2008 – present |
| Company: | AITF |
| Position Held: | Principal Consultant |
| Experiences or Responsibilities: | Dr. Gunter has been engaged as the principal consultant for providing advice on CO ₂ geological storage in view of his achievement. |

| | |
|----------------------------------|---|
| Term of office: | 2008 – present |
| Company: | Petromin |
| Position Held: | International Advisory Board member for Science & Technology of CCS |
| Experiences or Responsibilities: | Dr. Gunter has been providing advice to the board and management of Petromin on technological opportunities for ECBM and CO ₂ storage field projects in the PRC. |
| Term of office: | Sept 2009 – present |
| Company: | Our Company |
| Position Held: | Member of the International Advisory Board |
| Experiences or Responsibilities: | Dr. Gunter is responsible for providing expert advice to our Board in the areas of sustainable energy development and related technologies related to enhanced oil and unconventional gas production and CO ₂ storage, new business development in Asia related to CCS, and specialised expertise in science, economics and engineering as related to CCS. |

Mr. YIP Ting Keung David, aged 40, was appointed as our corporate finance director in May 2008. Mr. Yip obtained a Bachelor of Arts degree in Economics from Simon Fraser University, Canada, in 1993. Mr. Yip has in-depth knowledge of the gas sector in the PRC with strong industry connections and strong relationships with government officials and management of top tier Asian utilities. Prior to joining our Group, Mr. Yip has more than 10 years of experience in the banking industry, including, positions with Merrill Lynch, HSBC and ING Barings. He has 10 years of experience in executing financing transactions, including but not limited to, the energy-related industry.

Since Mr. Yip joined our Group, Mr. Yip has been responsible for the sourcing, structuring and execution of corporate finance for us and leading us to broaden and extend relationships with major institutional and corporate investors both domestically and globally. Mr. Yip is also responsible for developing short-, medium- and long-term financing strategy for us and our subsidiaries according to our 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 maximise full value capture.

Mr. CHAN Wan Tsun Adrian Alan, aged 32, was appointed as our chief financial officer in November 2009. Mr. Chan Wan Tsun Adrian Alan is mainly responsible for the overall financial management, internal control function and accounting function of our Group. He has over nine years of experience in corporate finance. Prior to joining our Group, he was associate director of UOB Asia (Hong Kong) Limited, mainly responsible for the execution of financial advisory, initial public offering, merger and acquisitions,

privatisation and other equity capital market transactions in the Greater China Region and Southeast Asia. He has also previously worked for the equity capital markets department of DBS Asia Capital Limited, the corporate finance department of Vickers Ballas Capital Limited, and as auditor for a top-tier international accounting firm.

Mr. Chan Wan Tsun Adrian Alan graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree in Accounting and Finance in 2000. He is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants, respectively.

Ms. MOK Kam Sheung, aged 51, joined us since 18 August 2008, and is our general counsel and company secretary. Ms. Mok is mainly responsible for our Company's legal and regulatory compliance matters as well as the general secretarial and corporate affairs of our Group. Ms. Mok has over 12 years of experience as a practicing solicitor in Hong Kong, specializing in corporate finance, secondary market fund raisings, and public company compliance and related transactions. Prior to joining our Group, she was a senior associate at DLA Piper Hong Kong, a world-renowned international legal services organization.

Ms. Mok is a member of the Law society of Hong Kong and the Law Society of England and Wales. She graduated from the College of Law, Chester, England, in 1993 and obtained a bachelor's degree from the University of Plymouth, England, in 1991. Ms. Mok was admitted as a solicitor to the High Court of Hong Kong and in England and Wales in 1997 and 1998, respectively.

Mr. JiuHong GUO, aged 52, was appointed as senior advisor of TWE in 2009. Mr. Guo advises TWE and our Company's senior management on business matters as related to its PSC in the PRC. Mr. Guo participates directly in the selection and evaluation of CBM development areas and exploration targets. He is directly involved in selecting PRC service providers. He was the vice president and general manager, the PRC for TWE from 2006 to 2007. Between 2007 and 2009, Mr. Guo was an independent consultant to various clients in the energy and mining industries, namely China United Mining Investment, Stutendril Investment and Clarke Management Services. Mr. Guo set up TWE's office in the PRC and is currently responsible for managing TWE's office in the PRC and coordinating business activities. Mr. Guo has 28 years of unique experience in and an intimate knowledge of the Chinese oil, natural gas and CBM industries with wide connections in government, business and major corporations such as CNPC, SINOPEC and China National Offshore Oil Corporation. Mr. Guo has been directly involved in selecting and evaluating hydrocarbon exploration targets in Alberta, Canada and CBM exploration targets in Junggar Basin, Ordos Basin and Qinshui Basin of the PRC.

Mr. Guo obtained an Executive Master of Business Administration degree from University of Texas, the USA in 2003. He also obtained a Bachelor of Arts degree in English Literature and Language from Anhui University, the PRC in 1982. Mr. Guo completed postgraduate courses at Shanghai University of Finance and Economics in 1983. Mr. Guo is a past member of the American Chamber of Commerce in China, Canada China Business Council, Beijing Chapter and the Institute of Internal Auditors, Calgary, Canada.

Further details of the experiences of Mr. Guo are set out below:

| | |
|---------------------------------------|--|
| Term of office: | 1999 – 2004 |
| Company: | BJ Services Company, Beijing |
| Last Position Held: | Manager (business development) |
| Past Experiences or Responsibilities: | <p>Following takeover of Fracmaster by BJ Services Company, a global major oilfield service corporation, Mr. Guo was appointed as the business development manager responsible for all of BJ Services Company’s business development and marketing activities in the PRC as well as global service manager for CNOOC, Sinopec and PetroChina. He was a member of the JMC of SINOPEC Shengli Production Sharing Project from its inception in 1996 to 2004.</p> <p>Mr. Guo led BJ Services Company’s marketing effort on Shell’s US\$3.2 billion natural gas project in Chongqing, PRC.</p> |
| Term of office: | 2004 – 2006 |
| Company: | Norwest Corporation, Beijing |
| Last Position Held: | Chief Representative |
| Past Experiences or Responsibilities; | <p>Mr. Guo was responsible for establishing and managing the representative office in Beijing and negotiating contracts for exploration of hydrocarbons in Alberta, Canada by PRC major corporations including Sinopec. Mr. Guo participated in selecting and evaluating exploration targets.</p> |
| Term of office: | 2006 – 2007 |
| Company: | TWE |
| Last Position Held: | Vice President and General Manager, the PRC |
| Past Experiences or Responsibilities: | <p>Mr. Guo established the Beijing office and was responsible for managing the Beijing office and for leading all business activities for TWE in the PRC, including new business development and contract negotiations. He participated directly in the selection and evaluation of CBM target areas in various parts of the PRC including Jungar basin, Ordos Basin and Qinshui Basin.</p> |

| | |
|---------------------------------------|---|
| Term of office: | 2007 – 2009 |
| Companies: | China United Mining Investment, Stutendril Investment and Clarke Management Services |
| Last Position Held: | Independent Consultant |
| Past Experiences or Responsibilities: | <p>China United Mining Investment is an investment firm focused on investment in the mining industries, both in China and overseas. Mr. Guo was responsible for assisting the investment firm in search for investment opportunities and in valuation of such opportunities, particularly in oil sands and iron ore projects in Nigeria and Mongolia.</p> <p>Stutendril Investment is mainly engaged in the gold mining industry. Mr. Guo was responsible for advising on valuation of prospective gold mining projects.</p> <p>Clarke Management Services is a joint venture audit and accounting firm based in Calgary, Canada. Mr. Guo was responsible for auditing oil companies in respect of contract compliance on behalf of joint venture partners.</p> |
| Term of office: | April 2009 – present |
| Company: | TWE |
| Position Held: | Senior Advisor |
| Experiences or Responsibilities: | Advises TWE and our Company’s senior management on business matters as related to its PSC project in the PRC. Mr. Guo participates directly in the selection and evaluation of CBM development areas and exploration targets. He is directly involved in selecting PRC service providers. |

III. BOARD COMMITTEES

Our Board has established several committees. The authority and duties of our Audit Committee and Remuneration Committee 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 our website. All committees are provided with sufficient resources to discharge their duties.

(a) Management Committee

Our Management Committee, which comprises two executive Directors, namely Mr. Chan and Dr. Gorrell, operates as a general management committee with overall delegated authority from our Board. Our Management Committee manages our daily operation and reports through Mr. Chan, the chairman, to our

Board. Our Management Committee meets regularly to review operational matters across our Group and to set overall objectives and policies.

(b) International Advisory Board

We established the International Advisory Board on 1 September 2009. Its purpose and functions are to provide expert advice to our Board and senior management 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.

Our Board anticipates that our International Advisory Board will contribute to the enhancement of our growth and the creation of Shareholders' value through the provision of expert advice in specific areas.

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

(c) Audit Committee

Our Audit Committee comprises three independent non-executive Directors, namely, Mr. David Tsoi, Mr. Lo Chi Kit and Mr. Tam Hang Chuen, with Mr. David Tsoi as the chairman.

The primary duties of our Audit Committee are to review and supervise the financial reporting process and the effectiveness of our Group's internal controls and risk management. Our Group's unaudited results for the nine months ended 30 September 2010 have been reviewed by our Audit Committee, which was of the opinion that the preparation of such financial statements complied with the applicable accounting standards and requirements of the Stock Exchange and legal requirements, and that adequate disclosures have been made.

(d) **Remuneration Committee**

Our Remuneration Committee currently comprises one executive Director, namely Mr. Chan as the chairman and two independent non-executive Directors, namely Mr. Lo Chi Kit and Mr. Tam Hang Chuen, as the members. The principal responsibilities of our Remuneration Committee include the formulation of our Group's remuneration policy, the approval and recommendation to our Board of remuneration packages for our Directors and senior management, and the review and approval of remuneration by reference to the performance of individuals and our Group as well as prevailing market practice and conditions.

IV. **DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**

(a) **Directors' Remuneration**

Directors' emoluments for the Relevant Periods, disclosed pursuant to the GEM Listing Rules and Section 161 of the Companies Ordinance, are as follows:

| For the year ended 31 December 2009 | Directors' fees <i>HK\$'000</i> | Salaries, allowance and other benefits <i>HK\$'000</i> | Employer's contribution to pension scheme <i>HK\$'000</i> | Share- based payments <i>HK\$'000</i> | Discretionary bonuses <i>(Note)</i> <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---------------------------------------|---|---|--|--|--------------------------|
| Name of Directors | | | | | | |
| <i>Executive Directors</i> | | | | | | |
| Mr. Chan | – | 8,421 | 12 | 224 | 1,810 | 10,467 |
| Dr. Gorrell | – | 192 | – | 224 | 95 | 511 |
| <i>Independent non-executive Directors</i> | | | | | | |
| 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 |

APPENDIX III DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

| For the seventeen-month period ended 31 December 2008 | Directors' fees <i>HK\$'000</i> | Salaries, allowance and other benefits <i>HK\$'000</i> | Employer's contribution to pension scheme <i>HK\$'000</i> | Share- based payments <i>HK\$'000</i> | Discretionary bonuses <i>(Note)</i> <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---------------------------------------|--|---|--|--|--------------------------|
| Name of Directors | | | | | | |
| <i>Executive Directors</i> | | | | | | |
| Mr. Chan | – | 9,801 | 17 | 16 | 9,950 | 19,784 |
| Mr. Chan Man Ching <i>(Note 1)</i> | – | 1,344 | 11 | – | 2,060 | 3,415 |
| Dr. Gorrell <i>(Note 2)</i> | 48 | 112 | – | 16 | – | 176 |
| <i>Independent non-executive Directors</i> | | | | | | |
| Mr. David Tsoi <i>(Note 3)</i> | 58 | – | – | – | – | 58 |
| Mr. Poon Lai Yin, Michael <i>(Note 4)</i> | 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 |

Notes:

- (1) resigned on 12 June 2008.
- (2) appointed as non-executive Director on 1 December 2007 and re-designated as executive Director on 2 June 2008.
- (3) appointed on 8 July 2008.
- (4) resigned as independent non-executive Director and re-designated as chief financial officer on 8 July 2008.

APPENDIX III DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

| For the year ended 31 July 2007 | Directors' fees HK\$'000 | Salaries, allowance and other benefits HK\$'000 | Employer's contribution to pension scheme HK\$'000 | Share- based payments HK\$'000 | Discretionary bonuses (Note) HK\$'000 | Total HK\$'000 |
|--|--------------------------------|---|--|---|--|-------------------|
| Name of Directors | | | | | | |
| <i>Executive Directors</i> | | | | | | |
| Mr. Chan ^(Note 1) | – | 2,601 | 7 | 3,610 | – | 6,218 |
| Mr. Chan Man Ching ^(Note 1) | – | 745 | 9 | 3,610 | – | 4,364 |
| Mr. Chan Chi Hung ^(Note 2) | – | 226 | 5 | – | – | 231 |
| Mr. Yuen Kin Tong ^(Note 2) | 4 | – | – | – | – | 4 |
| | <u>4</u> | <u>3,572</u> | <u>21</u> | <u>7,220</u> | <u>–</u> | <u>10,817</u> |
| <i>Independent non-executive Directors</i> | | | | | | |
| Mr. Poon Lai Yin, Michael ^(Note 3) | 37 | – | – | – | – | 37 |
| Mr. Lo Chi Kit ^(Note 3) | 37 | – | – | – | – | 37 |
| Mr. Tam Hang Chuen ^(Note 3) | 37 | – | – | – | – | 37 |
| Mr. Lau Siu Ki, Kevin ^(Note 2) | 70 | – | – | – | – | 70 |
| Mr. Wang Yat Yee, Mark ^(Note 2) | 46 | – | – | – | – | 46 |
| Mr. Zhang Guo Xuan ^(Note 2) | 10 | – | – | – | – | 10 |
| | <u>237</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>237</u> |
| Total | <u>241</u> | <u>3,572</u> | <u>21</u> | <u>7,220</u> | <u>–</u> | <u>11,054</u> |

Notes:

- (1) appointed on 29 November 2006.
- (2) resigned on 20 December 2006.
- (3) appointed on 20 December 2006.

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

For the year ended 31 December 2009, no emolument or incentive payments were paid by our Group to our Directors as an inducement to join or upon joining our Group or as compensation for loss of office (for the seventeen-month period ended 31 December 2008, as restated: Nil; for the year ended 31 July 2007, as restated: Nil).

For the year ended 31 December 2009, there was no arrangement under which our Directors waived or agreed to waive any emoluments (for the seventeen-month period ended 31 December 2008, as restated: Nil; for the year ended 31 July 2007, as restated: Nil).

Our Directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of our Group. The aggregate remunerations including fees, salaries, housing allowances, other allowances, benefits in kind and discretionary bonuses of the executive Directors and the independent non-executive Directors for the current financial year ending 31 December 2010 are estimated to be approximately HK\$9.5 million and HK\$0.4 million, respectively.

(b) Five Highest Paid Employees

During the year ended 31 December 2009, one (for the seventeen-month period ended 31 December 2008: two; for the year ended 31 July 2007: two) of the five individuals with the highest emoluments in our Group was Director whose emoluments are disclosed in the table above. Details of the emoluments of the remaining four (for the seventeen-month period ended 31 December 2008: three; for the year ended 31 July 2007: three) individuals are as follows:

| | Year ended 31 December 2009 <i>HK\$'000</i> | Seventeen -month period ended 31 December 2008 <i>HK\$'000</i> | Year ended 31 July 2007 <i>HK\$'000</i> |
|--|--|--|---|
| Salaries, allowances and other benefits | 6,181 | 4,093 | 1,163 |
| Retirement benefit scheme contributions | 35 | 24 | 23 |
| Share-based payments | 1,357 | 266 | 3,755 |
| Discretionary and performance related incentive payments | 571 | 2,780 | - |
| | <u>8,144</u> | <u>7,163</u> | <u>4,941</u> |

The emoluments were within the following bands:

| | Number of employees | | |
|-----------------------------------|----------------------------|--------------------|---------------------|
| | Seventeen- | | |
| | month | | |
| | period | | |
| | ended | | |
| | Year ended | 31 December | Year ended |
| | 31 December | 2008 | 31 July 2007 |
| | 2009 | 2008 | 31 July 2007 |
| Nil to HK\$1,000,000 | 1 | – | 2 |
| HK\$1,000,001 to HK\$1,500,000 | – | 2 | – |
| HK\$1,500,001 to HK\$2,000,000 | 2 | – | – |
| HK\$2,000,001 to HK\$3,500,000 | 1 | – | – |
| HK\$3,500,001 to HK\$4,000,000 | 1 | – | – |
| HK\$4,000,001 to HK\$4,500,000 | – | 1 | 1 |
| | <u>4</u> | <u>3</u> | <u>3</u> |
| | 4 | 3 | 3 |

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

V. SHARE OPTION SCHEME AND TWE SCHEME

Our Directors and employees, among others, are entitled to participate in our Share Option Scheme at the discretion of our Board. The purpose of our Share Option Scheme is to provide the eligible Participants who have been granted Options under our Share Option Scheme to subscribe for Shares with the opportunity to acquire proprietary interests in our Company and to encourage eligible Participants to work towards enhancing our value and Shares for the benefit of us and our Shareholders as a whole. Further details of our Share Option Scheme are set in Appendix IX to this circular.

The directors and employees of TWE, among others, are entitled to participate in the TWE Scheme at the discretion of the TWE Board. The purpose of the TWE Scheme is to provide the Eligible Persons who have been granted TWE Options under our TWE Scheme to subscribe for TWE Shares with the opportunity to acquire proprietary interests in TWE and to encourage Eligible Persons to work towards enhancing the value of TWE and/or the Affiliates and their respective shares for the benefit of TWE and the TWE Shareholders as a whole. Further details of the TWE Scheme are also set in Appendix IX to this circular.

Details of outstanding options granted under our Share Option Scheme and the articles of TWE for the nine months ended 30 September 2010 are as follows:

| | |
|--------------|--|
| APPENDIX III | DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES |
|--------------|--|

(a) Share Option Scheme

| Name or category of participants | Date of grant | Exercise period | Exercise price per Share (HK\$) | As of 30 September 2010 |
|--|---------------|-----------------------------|------------------------------------|-------------------------------|
| Executive Directors | | | | |
| Mr. Chan | 29/12/2006 | 29/12/2006 to 24/01/2013 | 0.0635 ⁽¹⁾ | 15,847,200 ⁽¹⁾ |
| | 22/06/2007 | 22/06/2007 to 24/01/2013 | 1.365 ⁽²⁾ | 2,000,000 ⁽²⁾ |
| | 19/06/2008 | 19/06/2010 to 19/06/2018 | 0.2316 | 500,000 ⁽³⁾ |
| | 15/06/2009 | 15/06/2011 to 15/06/2019 | 0.73 | 2,000,000 ⁽³⁾ |
| | 09/07/2010 | 09/07/2012 to 08/07/2020 | 0.56 | 8,500,000 ⁽⁴⁾ |
| Dr. Gorrell | 22/06/2007 | 22/06/2007 to 24/01/2013 | 1.365 ⁽²⁾ | 1,500,000 ⁽²⁾ |
| | 29/10/2007 | 29/10/2007 to 24/01/2013 | 2.44 | 700,000 |
| | 19/06/2008 | 19/06/2010 to 19/06/2018 | 0.2316 | 500,000 ⁽³⁾ |
| | 15/06/2009 | 15/06/2011 to 15/06/2019 | 0.73 | 2,000,000 ⁽³⁾ |
| | 09/07/2010 | 09/07/2012 to 08/07/2020 | 0.56 | 500,000 ⁽⁴⁾ |
| Independent non-executive Directors | | | | |
| David Tsoi | 15/06/2009 | 15/06/2011 to 15/06/2019 | 0.73 | 750,000 ⁽³⁾ |
| | 09/07/2010 | 09/07/2012 to 08/07/2020 | 0.56 | 250,000 ⁽⁴⁾ |
| Lo Chi Kit | 15/06/2009 | 15/06/2011 to 15/06/2019 | 0.73 | 600,000 ⁽³⁾ |
| | 09/07/2010 | 09/07/2012 to 08/07/2020 | 0.56 | 100,000 ⁽⁴⁾ |
| Tam Hang Chuen | 15/06/2009 | 15/06/2011 to 15/06/2019 | 0.73 | 100,000 ⁽³⁾ |
| | 09/07/2010 | 09/07/2012 to 08/07/2020 | 0.56 | 100,000 ⁽⁴⁾ |
| | | | | 35,947,200 |

APPENDIX III DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

| Name or category of participants | Date of grant | Exercise period | Exercise price per Share (HK\$) | As of 30 September 2010 |
|----------------------------------|---------------|-----------------------------|---|-------------------------------|
| Other employees | | | | |
| In aggregate | 26/04/2007 | 26/04/2007 to 24/01/2013 | 0.579 ⁽²⁾ | 40,000 ⁽²⁾ |
| | 19/06/2008 | 19/06/2010 to 19/06/2018 | 0.2316 | 8,850,000 ⁽³⁾ |
| | 15/06/2009 | 15/06/2011 to 15/06/2019 | 0.73 | 6,125,000 ⁽³⁾ |
| | 06/10/2009 | 06/10/2011 to 06/10/2019 | 0.75 | 60,000 ⁽³⁾ |
| | 04/02/2010 | 04/02/2012 to 04/02/2020 | 0.514 | 13,380,000 ⁽³⁾ |
| | 09/07/2010 | 09/07/2012 to 08/07/2020 | 0.56 | 8,700,000 ⁽⁴⁾ |
| | | | | 37,155,000 |
| Others | | | | |
| In aggregate | 20/03/2007 | 20/03/2007 to 24/01/2013 | 0.1125 ⁽¹⁾ | 15,840,000 ⁽¹⁾ |
| | 26/04/2007 | 26/04/2007 to 24/01/2013 | 0.579 ⁽²⁾ | 1,000,000 ⁽²⁾ |
| | 22/06/2007 | 22/06/2007 to 24/01/2013 | 1.365 ⁽²⁾ | 13,000,000 ⁽²⁾ |
| | 29/10/2007 | 29/10/2007 to 24/01/2013 | 2.44 | 23,500,000 |
| | 19/06/2008 | 19/06/2010 to 19/06/2018 | 0.2316 | 500,000 ⁽³⁾ |
| | 15/06/2009 | 15/06/2011 to 15/06/2019 | 0.73 | 20,000,000 ⁽³⁾ |
| | 06/10/2009 | 06/10/2011 to 06/10/2019 | 0.75 | 350,000 ⁽³⁾ |
| | 04/02/2010 | 04/02/2012 to 04/02/2020 | 0.514 | 50,250,000 ⁽³⁾ |
| | 09/07/2010 | 09/07/2012 to 08/07/2020 | 0.56 | 61,850,000 ⁽⁴⁾ |
| | | | | 186,290,000 |
| | | | Total: | 259,392,200 ⁽⁵⁾ |
| | | | Weighted average exercise price per Share (HK\$) | 0.73 |

Notes:

- (1) The exercise price and number of Options were adjusted upon the first and second subdivisions of Shares which came to effect on 18 April 2007 and 29 August 2007, respectively.
- (2) The exercise price and number of Options were adjusted upon the second subdivision of Shares which came to effect on 29 August 2007.
- (3) 50% of 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 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) 50% of the Options are exercisable in a period commencing two years from the date of grant and expiring on the day falling one day preceding the tenth anniversary from the date of grant. The balance of 50% of the Options are exercisable in a period commencing three years from the date of grant and expiring on the day falling one day preceding the tenth anniversary from the date of grant.
- (5) As of 30 September 2010, our Company had 259,392,200 Options outstanding under our Share Option Scheme, which represented approximately 10.67% of our Shares in issue on that date. Subsequent to 30 September 2010, 170,000 Options had lapsed. As such, as of the Latest Practicable Date, our Company had 259,222,200 Options outstanding under our Share Option Scheme, which represented approximately 9.33% of our Shares in issue on that date.
- (6) During the nine months ended 30 September 2010, 63,630,000 Options and 80,000,000 Options were granted on 4 February 2010 and 9 July 2010, respectively. The closing prices of our Shares at the date of which the aforesaid Options were granted were HK\$0.51 and HK\$0.56, respectively.

(b) TWE Scheme

As of the Latest Practicable Date, no TWE Options were granted under the TWE Scheme.

Prior to the adoption of the TWE Scheme, pursuant to the articles of TWE, a total of 12,850,000 incentive stock options were granted by TWE to certain of its directors and consultants to subscribe for TWE Shares on 27 August 2008 with details as follows:

| Name or category of participants | Date of grant | Exercise period | Exercise price per TWE Share (C\$) | As of 30 September 2010 |
|----------------------------------|---------------|-----------------------------|------------------------------------|-------------------------|
| Director | | | | |
| Dr. Gorrell | 27/08/2008 | 27/08/2008 to 27/08/2011 | 0.03 | 3,000,000 |
| Others | | | | |
| In aggregate | 27/08/2008 | 27/08/2008 to 27/08/2011 | 0.03 | 9,850,000 |
| | | | Total: | <u>12,850,000</u> |

VI. EMPLOYEES**(a) Employees' remuneration and remuneration policies**

As of the Latest Practicable Date, our Group had 21 full-time employees working in Hong Kong, the PRC and Canada. For the year ended 31 December 2009, total staff costs, including Directors' emoluments, amounted to approximately HK\$24.0 million. Our Group remunerates its employees based on their performance, experience and the prevailing industry practice.

(b) Share Option Scheme and TWE Scheme and other benefits

In addition to the regular remuneration, Options and/or TWE Options may be granted to selected employees by reference to our Group's and TWE's performance as well as the individual's performance. Other benefits, such as medical and retirement benefits and training programs, are also provided.

(c) Employee retirement benefits in Hong Kong

Our Group operates a defined contribution MPF retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, for all our employees in Hong Kong. The MPF scheme is a defined contribution retirement plan administered by independent trustees. The assets of the MPF scheme are held separately from those of our Group in an independently administered fund. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF scheme. Our Group's employer contributions vest fully with the employees when contributed into the MPF scheme.

Our 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. Our Group is required to make specific contributions to the retirement schemes at a rate of 12% to 25% of basic salary of our 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 paid to these schemes by our Group during the year ended 31 December 2009.

VII. COMPANY'S RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS**(a) Our Controlling Shareholders**

Mr. Chan owns approximately 43.01% interest of our Company with 42.69% interest of which held indirectly through his wholly-owned company, Colpo, immediately prior to the Transfer. Immediately following the Transfer, the shareholding of both Mr. Chan and Colpo will not be changed, and they will remain as our Controlling Shareholders. Save as disclosed herein, Colpo is an investment holding company held by Mr. Chan with no other business. It does not have interest in any other companies which may, directly or indirectly, compete with our Group's business.

(b) Relationship between Mr. Chan, Dr. Gorrell and Petromin

During the year ended 31 December 2009, Mr. Chan, our executive Director, is a director and co-chairman of Petromin whilst Dr. Gorrell, an executive Director, is a director, the president, co-chairman and chief executive officer of Petromin. As of the Latest Practicable Date, (i) Mr. Chan directly and indirectly held 1,615,177 stock options entitling him to subscribe for 1,615,177 common shares (representing an approximately 2.8% of the issued common share capital) in Petromin; (ii) Dr. Gorrell held 2,230,193 common shares (representing an approximately 3.8% of the issued common share capital) and 1,021,000 stock options entitling him to subscribe for 1,021,000 common shares (representing an approximately 1.8% of the issued common share capital) in Petromin; and (iii) Mr. Lo Chi Kit, an independent non-executive Director, held 262,500 common shares in Petromin (representing approximately 0.5% of the issued common share capital).

Petromin is engaged in the business of acquisition and development of oil and gas properties. For the year ended 30 September 2009, Petromin recorded an audited net loss of C\$673,039. As of 30 September 2009, the audited net asset of Petromin amounted to C\$2,486,161. As of the Latest Practicable Date, Petromin had oil and gas properties in the Province of Alberta, Canada. Taking into account (i) the operation of Petromin's business in Canada which is geographically different from our current project operation in the PRC; (ii) our Company and Petromin have different target customers; and (iii) our Controlling Shareholders had entered into the Deed of Non-competition in favour of our Company, our Board considers that the business of Petromin does not and will not have any direct competition with our Group's business.

(c) Independence from Controlling Shareholders**(i) Management Independence**

Our Board comprises two executive Directors and three independent non-executive Directors. Mr. Chan, our Controlling Shareholder, is one of our executive Directors. Each of our Directors is aware of the fiduciary duties as a Director which require, among others, that he must act for the benefit and in the best interest of our Company and must not allow any conflict between his duties as a Director and his personal interest.

Other than Mr. Chan and Dr. Gorrell, there is no overlap between the management team of our Company and that of Petromin's business. If there is any potential conflict of interest arising out of any transactions to be entered into between our Company and our Directors or their respective Associates, the interested Director must abstain from voting at the relevant board meetings of our Company in respect of such transactions and will not be counted in the quorum.

Our Company has also adopted various corporate governance measures, as described in the sub-section headed "Corporate Governance Measures" below. As these measures set out the basic principles that our Controlling Shareholders should abide by in relation to the management of our Company, our Directors are of the opinion that such measures will strengthen the independence of our management.

(ii) Operational Independence

While our Controlling Shareholders will retain a controlling interest in our Company, our Board has full rights to make all decisions relating to our business operations independently. Although Mr. Chan is our Controlling Shareholder and our executive Director, we have our own management and operation teams, of which all members are independent of the Controlling Shareholders. Moreover, we (through our subsidiaries) hold all relevant licenses necessary to carry on our business, and have sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders.

Except for Mr. Chan's minimal underlying interest and directorship in Petromin mentioned above, Mr. Chan and Colpo have no other business interests other than their shareholding interests in our Company.

Our Directors currently do not expect that there will be any business transactions between our Company and our Controlling Shareholders and their respective Associates. Moreover, we can access our suppliers independently of our Controlling Shareholders. As of the Latest Practicable Date, PetroChina was our sole customer for our conventional crude oil business. As for our unconventional natural gas business, our Company did not have any customer as we had not yet begun commercial production. Our Controlling Shareholders did not have any customer as Colpo is an investment holding company.

(iii) Financial Independence

We have our own financial management system, internal controls and accounting systems, accounting and finance department, independent treasury function for cash receipts and payments and the ability to operate independently from our Controlling Shareholders from a financial perspective.

Our Directors believe that we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

Having considered the above reasons, our Directors are of the view that we are capable of carrying on our business independently of our Controlling Shareholders (including any Associate thereof).

Our Directors confirm that as of the Latest Practicable Date, our Controlling Shareholders had not provided any guarantee or any other financial assistance, including amounts due from and loans to our Company.

Save as disclosed above, none of our Controlling Shareholders or Directors is interested in any business, other than that of our Group, which competes or is likely to compete, either directly or indirectly, with the Restricted Business (as defined in the sub-section headed “Non-competition Undertakings” below) and which requires disclosure pursuant to relevant law and regulations.

VIII. NON-COMPETITION UNDERTAKINGS

In accordance with the non-competition undertakings set out in the Deed of Non-competition, each of our Controlling Shareholders has undertaken to our Company (for himself, itself and on behalf of its subsidiaries) that during the period commencing from the Listing Date and ending on the occurrence of the earliest of (i) the day on which our Shares ceased to be listed on the Main Board or any stock exchange (except the delisting from GEM pursuant to the Transfer); (ii) the day on which our Controlling Shareholders cease to be interested in at least 30% of the entire issued share capital of our Company; or (iii) the day on which our Controlling Shareholders beneficially own or are interested in the entire issued share capital of our Company:

- he/it will not and will procure that none of his/its Associates will, except through his/its interests in our Company, whether as principal or agent and whether undertaken directly or indirectly through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, participate in, acquire or hold any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or is likely to be in competition with our business as described in this circular including, but not limited to, the development of environmental energy-related projects involving conventional oil, unconventional natural gas and state-of-the-art oil and gas related environmental technologies and any other business from time to time conducted by any member of our Group or in which any member of our Group is engaged or has invested or which our Group has otherwise publicly announced its intention to enter into, engage in or invest in, within any of the territories where our Group carries on business from time to time (“Restricted Business”).
- if they and/or any of their respective Associates is offered or becomes aware of any business opportunity directly or indirectly to engage or become interested in a Restricted Business, he/it:
 - (a) will promptly notify our Company in writing and refer such business opportunity to our Company for consideration and provide such information as may be reasonably required by our Company in order to make an informed assessment of such business opportunity; and

- (b) will not, and procure that their respective Associates will not, invest or participate in any project or business opportunity unless such project or business opportunity shall have been rejected by our Company and the principal terms of which the Controlling Shareholders or their respective Associates invest or participate in are no more favorable than those made available to our Company.

Our Controlling Shareholders further undertake to our Company that they will not and will procure that none of their respective Associates will:

- (a) at any time induce or attempt to induce any director, manager, employee or consultant of any member of our Group to terminate his or her employment or consultancy (as appropriate) with our Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as appropriate);
- (b) at any time employ any person who has been a director, manager, employee of or consultant to any member of our Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business; or
- (c) alone or jointly with any other person, or as manager, advisor, consultant, employee or agent for or shareholder in any person, firm or company, in competition with any member of our Group, canvass, or solicit or accept orders from or do business with any person with whom any member of our Group has done business or solicit or persuade any person who has dealt with our Group or is in the process of negotiating with our Group in relation to the Restricted Business to cease to deal with our Group or reduce the amount of business which the person would normally do with our Group or seek to improve their terms of trade with any member of our Group.

The decision-making process in relation to the Deed of Non-competition will be governed and monitored as follows:

- Our independent non-executive Directors will be responsible for deciding, without attendance by any executive Director (except as invited by our independent non-executive Directors to assist them or provide any relevant information but in no circumstances shall the executive Director(s) participating in such meeting be counted towards the quorum or allowed to vote on such meeting), whether or not to take up a new business opportunity referred to us under the terms of the Deed of Non-competition.
- Our independent non-executive Directors may employ an independent financial advisor as they consider necessary to advise them on the terms of any such new business opportunity or the options.

- Our Controlling Shareholders will undertake to keep us informed of new business opportunities and to provide all information reasonably required by the independent non-executive Directors to assist them in their consideration of any new business opportunity.
- Our independent non-executive Directors will also review, on an annual basis, any decisions in relation to new business opportunities referred to us, and state their views with basis and reasons in our annual report.

In the event that we decide not to proceed with any particular projects or business opportunities and our Controlling Shareholders or their respective Associates decide to proceed with such a project or business opportunity with terms remaining the same, we will announce such decision by way of an announcement setting out therein the basis for us not taking the project or the business opportunity.

IX. CORPORATE GOVERNANCE MEASURES

We will adopt the following measures to ensure good corporate governance practices and to improve transparency:

- (i) our independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertakings under the Deed of Non-competition by our Controlling Shareholders, the options, pre-emptive rights or first rights of refusals provided by our Controlling Shareholders on their existing or future competing businesses;
- (ii) our Controlling Shareholders undertake to provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the non-competition undertakings under the Deed of Non-competition;
- (iii) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the non-competition undertakings under the Deed of Non-competition in our annual reports; and
- (iv) our Controlling Shareholders will make an annual confirmation on their compliance with the non-competition undertakings under the Deed of Non-competition in our annual reports.

I. GENERAL FINANCIAL INFORMATION

(a) Financial Information

Financial information of our Group for the Relevant Periods and the nine-month period ended 30 September 2010 are disclosed in our annual reports and interim report published on both the GEM website (www.hkgem.com) and our website (www.enviro-energy.com.hk) on 16 October 2007, 26 March 2009, 19 March 2010 and 11 November 2010, respectively.

As disclosed in our Company's announcement dated 12 August 2008, our financial year-end was changed from 31 July to 31 December with effect from the financial period ended 31 December 2008.

There has not been any interruption in the business of our Group which might have or have had a material adverse effect on our financial position in the 12 months preceding the Latest Practicable Date.

Our principal bankers are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank. Their respective addresses are 1 Queen's Road Central, Hong Kong and 83 Des Voeux Road Central, Hong Kong.

(b) Revenue

We have focused our resources on our principal business activities, energy-related business and have scaled-down substantially our IT solutions and services business in the Relevant Periods, thus we have only generated a minimal revenue from our IT solutions and services business during the Relevant Periods while our non-conventional natural gas businesses were still in exploration and evaluation phase, the total revenue of our Company earned for the Relevant Periods is set out as follows:

| | Year ended 31 December 2009 | Seventeen- month period ended 31 December 2008 | Year ended 31 July 2007 |
|--------------------|-----------------------------------|---|----------------------------|
| Revenue (HK\$'000) | 310 | 2,213 | 3,374 |

(i) For the year ended 31 December 2009

Revenue represents amount receivable for goods sold and services provided in the normal course of business. An analysis of our Group's revenue for the year ended 31 December 2009 is as follows:

| | Year ended 31 December 2009 <i>HK\$'000</i> |
|---|---|
| Sale of computer hardware and software | 279 |
| Network infrastructure maintenance and other services | <u>31</u> |
| Total: | <u><u>310</u></u> |

For the year ended 31 December 2009, revenue is measured at the fair value of the consideration received or receivable. 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.

(ii) For the seventeen-month period ended 31 December 2008

Revenue represents amount receivable for goods sold and services provided in the normal course of business, net of sales related taxes. An analysis of our Group's revenue for the seventeen-month period ended 31 December 2008 is as follows:

| | Seventeen-month period ended 31 December 2008 <i>HK\$'000</i> |
|--|---|
| Revenue | |
| Network infrastructure construction solutions | |
| – Sale of computer hardware and software and the provision of related services | 521 |
| Rendering of network infrastructure maintenance and reinforcement services | 787 |
| Other professional value-added solutions and services | <u>905</u> |
| Total | <u><u>2,213</u></u> |

For the seventeen-month period ended 31 December 2008, revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of computer hardware and software and the provision of related network infrastructure construction services is recognised when the installation work is completed and the customer has accepted the goods together with significant risks and rewards of ownership. Revenue from the rendering of network maintenance and reinforcement services is recognised on a time proportion basis over the period of the contract or when the related services are rendered. Revenue from the rendering of other professional value-added solutions and services and data processing fee income is recognised when the related services are rendered.

(iii) For the year ended 31 July 2007

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered. An analysis of our Group's revenue for the year ended 31 July 2007 is as follows:

| | Year ended 31 July 2007 HK\$'000 |
|--|---|
| Revenue | |
| Network infrastructure construction solutions | |
| – Sale of computer hardware and software and the provision of related services | 920 |
| Rendering of network infrastructure maintenance and reinforcement services | 1,602 |
| Other professional value-added solutions and services | 852 |
| | <hr/> |
| Total | <u>3,374</u> |

For the year ended 31 July 2007, revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of computer hardware and software and the provision of related network infrastructure construction services, when the installation work is completed and the customer has accepted the goods together with significant risks and rewards of ownership;
- (ii) from the rendering of network infrastructure maintenance and reinforcement services, on a time proportion basis over the period of the contract or when the related services are rendered; and

- (iii) from the rendering of other professional value-added solutions and services and data processing fee income, when the related services are rendered.

(c) Oil and Gas Properties

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

At the balance sheet date, oil and gas properties represented exploration expenditures, including licence, and acquisition costs incurred for the Liuhuanggou Project.

(d) Statement of Indebtedness

As of 31 October 2010, the latest practicable date for the purpose of this statement of indebtedness, our Group did not have any debt securities, debentures, other loan capital or loans, or indebtedness in the nature of borrowing of our Group including bank overdrafts and liabilities under acceptance (other than normal trade bills), acceptance credits, or hire purchase commitments, outstanding mortgages, charges, or any guarantees or other material contingent liabilities.

(e) Net Assets and Net Current Assets

As of 31 October 2010, our Group had net current assets of approximately HK\$172,448,000.

As of 31 October 2010, our Group had net assets (including non-controlling interests) of approximately HK\$994,569,000, comprising non-current assets of approximately HK\$1,070,118,000 (comprising property, plant and equipment of approximately HK\$2,429,000, interest in a jointly-controlled entity amounted to approximately HK\$3,008,000, available-for-sale investment of approximately

HK\$1,189,000, oil and gas properties of approximately HK\$1,060,542,000 and club memberships of approximately HK\$2,950,000), net current assets of approximately HK\$172,448,000 (comprising trade receivables of approximately HK\$72,000, deposits, prepayments and other receivables of approximately HK\$2,094,000, amount due from a jointly-controlled entity of approximately HK\$19,583,000, financial asset at fair value through profit or loss of approximately HK\$4,246,000, bank balances and cash of approximately HK\$178,659,000, trade payables of approximately HK\$3,241,000 and accrued liabilities and other payables of approximately HK\$28,965,000) and non-current liabilities of deferred tax liabilities of approximately HK\$247,997,000.

As of 31 October 2010, the financial liabilities of our Group in Hong Kong were HK\$32,206,000. Our Group as of 31 October 2010 had no bank loans and bills payable.

(f) Material Adverse Change

As of the Latest Practicable Date, our Directors were not aware of any material adverse change in the indebtedness, contingent liabilities, financial or trading position of our Group since 31 December 2009, the date to which the latest published audited consolidated financial statements of our Group were made up.

II. MANAGEMENT DISCUSSION AND ANALYSIS

(a) Business Review

(i) Conventional crude oil business

We indirectly owns 50% of the equity interest of 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, 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 the third quarter of 2010, the crude oil price in the PRC continued to maintain at a level ranging between approximately US\$70 and US\$80 per barrel. PetroChina, being the operator of the Qian An Oilfields, maintained the crude oil production levels at an average monthly production of approximately 10,000 barrels.

(ii) Unconventional natural gas business

As of the Latest Practicable Date, we held approximately 64.98% of the current issued common shares and preferred shares in the capital of TWE, or approximately 74.25% of the issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis, respectively. TWE and CUCBM hold an interest of 47% and 53%, respectively, in the PSC, which is located in Xinjiang in the far west of the PRC.

TWE has completed an evaluation of the CBM resources for the coal seams in a portion of its Liuhuanggou Project lands which provided a best estimate of discovered GIIP of 147.43 Bcf for the J2X and J1B coal seams in aggregate in the evaluation area (range of 70.0 low estimate to 514.07 Bcf high estimate). The evaluation area for the best estimate of discovered GIIP is 30 sq.km., which represents approximately 5% of the total area of the PSC (653 sq.km.). The evaluation report is compliant with NI 51-101 and the COGE Handbook and was undertaken by an independent third party. The resource estimate is based on coal seams only and does not include the gas resources in other rocks including carbonaceous mudstone/shale.

As disclosed in our Company's announcements dated 27 September 2010 and 16 November 2010, we have initiated the 2010 Program in September 2010. The 2010 Program involves drilling and production testing of up to ten pilot production wells. The wells are planned to produce CBM from target coal seams as well as natural gas from shale. We have completed the engineering design for well completions and expect to perforate and fracture (stimulate) target formations as part of the program. We have also initiated pilot testing at two locations drilled previously, namely the LHG 08-01 and 08-03 wells. In early November 2010, one pilot production well was successfully drilled to the target depth, logged, cemented and cased. Well LHG 10-01 was drilled to approximately 720 metres (2,375 feet) depth and is intended to test CBM production from the thick J2X coal seam. The control drillhole LHG 09-03 completed in 2009, intersected 63 metres (208 feet) of J2X coal at the location. Following release of the drill rig, CBM testing will begin at well LHG 10-01 and the site is now being prepared for service equipment and the testing team. Two other pilot production wells, LHG 10-02 and LHG 10-03 continue to drill ahead with target depths expected to be reached in the near future. These wells will be logged, cemented and cased prior to testing. CBM testing was successfully initiated at well LHG 08-01 where a micro-pilot test, which produced water and CBM from the coal seam, was previously completed on a 30 metres (99 feet) open-hole section of the J2X. The 2010 test will open an additional 18 metres (60 feet) of J2X coal which was behind casing in the well. The test has been started and engineers are onsite to monitor the work and optimize the test procedures.

As of the Latest Practicable Date, TWE held the first and to date only fully-approved CBM PSC in Xinjiang which was considered to be among the most attractive CBM exploration areas in the world based on known coal resources and regional economic development plans of the central government of China (as shown in the table below). The 2010 Program is the first CBM pilot production under a production sharing contract in western China.

A comparison of net coal thickness, production well spacing, gas content and annual production between Junggar Basin and other major CBM producing basins around the world is presented below:

Comparison of CBM Reservoir Characteristics of Junggar Basin and Major Producing Basins

| Basin | Formations | Description | Typical Net Coal (m) | Typical Well Spacing (acres) | Typical Gas Content (scf/t) | Annual Basin Production (2006) |
|------------------------------------|---------------------|---|-------------------------|---------------------------------|--------------------------------|------------------------------------|
| Liuhuanggou CBM Project | | | | | | |
| Junggar Xinjiang | Xishanyao (J2X) | Sub-bituminous/ Low Volatile Bituminous C | 25.74 | 80-160 (Potential) | 30-269 | - |
| | Badaowan (J1B) | Sub-bituminous/ Low Volatile Bituminous C | 19.15 | 80-160 (Potential) | 50-350 | - |
| | TOTAL J2X+J1B | | 44.89 | 80-160 | 30-350 | Not in commercial production |
| Major Producing Basins | | | | | | |
| San Juan USA | Fruitland | Bituminous Coal | 20-25 | 320 | 430 | 1 trillion cubic feet |
| Black Warrior USA | Pottsville | Bituminous Coal | 8-10 | 80 | 350 | 127 bcf |
| Piceance USA | Williams Fork | Bituminous Coal | 20-25 | 60-80 | 750 | 4 bcf |
| Raton USA | Raton Vermejo | Bituminous Coal | 10 | 160 | 350 | 105 bcf |
| Powder River USA | Fort Union | Sub-bituminous Coal | 25-30 | 80 | 30-50 | 340 bcf |
| Western Canadian Sedimentary | Horseshoe Canyon | Sub-bituminous/ Low Volatile Bituminous C | 10-15 | 80 | 60 | 323 bcf (Note 1) |
| Surat Australia | Walloon | Bituminous Coal | 20 | 160 | 125-350 | Not available |
| Kutai Indonesia | Pranget | Sub-bituminous Coal | 20 | To be determined | 50+ (Note 2) | Not in commercial production |

Sources: US GRI, 2004; Steven, S. "Indonesia Coalbed Methane Indicators and Basin Evaluation", 2004; Robert W. Day, Coal Seam Gas Booms in Eastern Australia, June 2009

http://www.eia.doe.gov/oil_gas/rpd/cbmusa2.pdf

Notes:

1. 2007 production level.
2. Estimated gas content based on published coal rank and reflectance.

Under the terms of the PSC, TWE has the right to explore for, develop, produce and sell CBM or liquid hydrocarbons extracted from CBM. CBM is defined in the PSC as gas stored in certain named geological formations of Jurassic age to a depth of 1,500 metres.

As of the Latest Practicable Date, our Company held approximately 64.98% of the current issued common shares and preferred shares in the capital of TWE, or approximately 74.25% of the issued shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis, respectively.

In June 2010, TWE approved a new share issue and distributed a notice of intent to complete a private placement of units in order to raise capital for the 2010 Program. TWE solicited interest in the planned subscription from all its current shareholders and we, through our subsidiary, provided positive indication to invest. As disclosed in more details in our announcement dated 26 July 2010, we, through Aces Diamond International Limited, our wholly-owned subsidiary, entered into a subscription agreement with TWE on 25 July 2010, pursuant to which Aces Diamond International Limited has agreed to subscribe for 90 million units of TWE at a subscription price of C\$4,500,000. Upon completion of the said subscription in full, our controlling interests, through our wholly-owned subsidiaries, in TWE will further increase to approximately 71.61% of the issued common shares and preferred shares in the capital of TWE. Upon completion of the said subscription and assuming all C warrants and D warrants are exercised in full, our controlling interests, through our wholly-owned subsidiaries, in TWE will further increase to approximately 82.29% of the issued common shares, preferred shares, warrants and options outstanding in the capital of TWE on a fully diluted basis.

(iii) Environmental technologies

The ECBM Project operated under the cooperative joint venture agreement dated 25 January 2008 ("**JV Agreement**") between CUCBM, Petromin and us continued to move ahead as planned during the third quarter of 2010. The ECBM Project is a single-well pilot project that involves injecting CO₂ into target coal seams to test the CO₂ 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 ECBM Project, while Petromin and us each holds a 20% participating interest.

During the third quarter of 2010, the CO₂ injection and ECBM pilot production test was completed as planned. Reservoir data collection and analysis followed the testing and reservoir simulation work will follow the analysis. Full test results and indications of the plan for next steps will follow in the fourth quarter of 2010.

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. The 124 sq km area within the North Shizhuang area is currently defined as an area of internal exploration by CUCBM and the pilot test area covers 1,152 acres (466 hectares or 5 sq km) of this block. There is sufficient land area to test the CO₂ storage capacity of coal seams as well as the effectiveness of CO₂ as a driver of ECBM production. CUCBM exclusively holds 100% of CBM rights for a 50 sq km area of the North Shizhuang block which is a target area for the multi-well expansion where well SX-001 is located.

The project joint management planning committee will hold meetings in the fourth quarter of 2010 to discuss results and next steps for the project. The CO₂ injection is the first ever such activity in the PRC to be undertaken under leadership of state-owned and private enterprises while being assisted by support and funding from the Chinese and Canadian governments.

As previously disclosed, the ECBM Project has received funding support from the Canadian government under the auspices of the Asia-Pacific Partnership on Clean Development and Climate and has also received significant support from the Ministry of Science and Technology of the PRC.

The single well pilot program will continue until the end of calendar year 2010 and pursuant to a supplemental agreement dated 30 November 2010, the ECBM Project was extended until 31 December 2010. Canadian government funding support extends to 31 March 2011, if required.

The test well (SX-001) was contributed to the ECBM Project by CUCBM for the purposes of the test. The parties expect to continue well testing in Phase 2 of the ECBM project so there are no plans for final remediation, rehabilitation and closure and removal of facilities in a sustainable manner at this time. Our Company would be responsible for 20% of such costs when incurred and sufficient funds are available for such an eventuality.

(b) Business Prospects

(i) Conventional crude oil business

Our Company's outlook for the crude oil business is positive for demand and price level.

Crude Oil Price: West Texas Intermediate ("WTI") oil prices averaged US\$75 per barrel in September 2010 but rose above US\$80 at the end of the month and into early October 2010 as expectations of higher oil consumption pushed up prices. US Energy Information Agency ("EIA") has raised the average fourth quarter 2010 forecasted WTI spot price to US\$79 per barrel compared with US\$77 per barrel in the previous quarter outlook. WTI spot

prices are projected to rise to US\$85 per barrel by the fourth quarter of next year. Projected WTI prices average US\$78 per barrel in 2010 and US\$83 per barrel in 2011.

EIA expects the price of WTI crude oil to average about US\$80 per barrel this winter, a US\$2.50-per-barrel increase over last winter. The forecast for average WTI prices rises gradually to US\$85 per barrel by the fourth quarter of 2011 as the United States and global economic conditions improve. EIA's forecast assumes the United States gross domestic product ("GDP") grows by 2.6% in 2010 and 2.1% in 2011, while world oil-consumption-weighted GDP grows by 3.8% and 3.3%, respectively, in 2010 and 2011.

The global oil market outlook remains largely unchanged from the previous few months. While commercial oil inventories in the Organization for Economic Cooperation and Development ("OECD") countries remain high, floating oil storage has been declining (vessels at sea), and EIA believes that a gradual projected reduction in OECD oil inventories over the forecast period should support firming oil prices.

The global economic outlook also remains substantially the same, with Asian countries continuing to lead global economic growth with a strong focus on China. World oil prices are expected to rise gradually as global economic growth leads to higher global oil demand and growth in non-OPEC oil supply slows in 2011. The price movement in the coming year will depend on the extent of the global economic recovery and the balance between growing demand and increasing production.

Our Group continues to interpret the global and regional situation in petroleum as supporting its continued involvement in the upstream petroleum business in PRC and our Group continually assesses opportunities for increased Shareholder value from current operations.

(ii) Unconventional natural gas business

The PRC is considered one of the world's largest and fastest growing consumer markets for natural gas and also holds the largest estimated CBM resources (unconventional natural gas) in the world. Forecast demand for natural gas outstrips supply in the PRC by a wide margin and the development of CBM and other unconventional natural gas resources is highly sought after, encouraged and supported by the central government of PRC.

The central government of China has introduced new economic development policies for Xinjiang which are now seeing substantial increases in infrastructure construction and other investments accelerating economic development, including energy resource development. The specific Xinjiang target of the economic policy is unprecedented in China.

To date, TWE, our non-wholly-owned subsidiary, holds the only CBM PSC in the Junggar Basin. Within the PRC, the Junggar Basin is considered to be among the most prospective regions for CBM and other unconventional natural gas and is connected to the national natural gas pipeline grid of the PRC via both the national 1st and 2nd West-East pipelines.

Other corporations are being attracted to the Junggar Basin including BP Plc and Dart Energy Limited (formerly Arrow Energy Limited) which are reported in talks with PetroChina.

(iii) International shale gas and CBM developments

Growth of shale gas production has been most significant in the United States to date, with shale gas production increasing eight times over the past decade. It now accounts for 10% of the gas production in the United States and 20% of total remaining recoverable gas resources in the United States. The EIA projects that by 2030, shale gas will represent 7% of global natural gas supplies. Unconventional natural gas (shale gas plus CBM) now accounts for approximately 20% of the gas production in the United States.

With regard to the rapid expansion of shale gas production and accompanying intense investment activity it is important to note that Mr. Aubrey McClendon, chairman, CEO, and founder of Chesapeake Energy, one of the first oil and gas producers to develop shale gas properties in the United States, says the “discovery bonanza” in the United States is over and that investors should not expect major new shale discoveries.

Speaking to a group of investors and industry analysts, Mr. McClendon said investors should not expect major new shale gas finds “because there won’t be any”. He added that, by the end of 2011, “It will all be over”. This is a reflection of the prospective land situation in the United States and the result of the enormous boom in shale gas play acquisitions. Late comer investors and/or investment funds now have to look elsewhere for prospective shale gas lands. International shale gas plays are expected to become more attractive based on available land and positive gas price environments. This is very much the case in China at this time.

(iv) Strategic financial initiative with CKI

As previously disclosed, Mr. Chan, our executive Director, the Chairman and Chief Executive Officer, through his investment vehicle, Colpo, being our Controlling Shareholder, as issuer, and he, as issuer’s guarantor, executed the Note Instrument with Green Island Cement Company, Limited, a subsidiary of CKI which shares are listed on the Main Board of the Stock Exchange.

The Note Instrument entitles Green Island Cement Company, Limited to exchange for up to 200,000,000 Shares, representing up to approximately 7.2% of our issued share capital at an exercise price of HK\$0.88 per Share, subject to adjustment, within an exercise period of three years commencing from 12 April 2010 to 12 April 2013. The aggregate consideration payable by Green Island Cement Company, Limited upon full exercise of its right under the Note Instrument shall be HK\$176 million, subject to adjustment.

CKI is the largest publicly listed infrastructure company in Hong Kong with diversified investments in energy infrastructure, transportation infrastructure, water infrastructure and infrastructure related businesses. Operating in Hong Kong, PRC, Australia, New Zealand, the United Kingdom, Canada and the Philippines, CKI is a leading player in the global infrastructure arena.

Our Group welcomes this financial initiative and the cooperation with CKI. The business case for environmental sustainability is imperative and this transaction serves as an endorsement of our Group's corporate business model and long-term strategic plan which further validates our underlying value. In addition, our Group is delighted to have commenced this relationship with CKI through the Note Instrument investment which sees our entering into an exciting new chapter of value creation for our Shareholders. The transaction results in an alignment of strengths within each company, namely CKI's operational capabilities, financial capacity and global scale with our proven skills of project identification, development along the energy value chain and advancement of environmental technology. Together with its partners, our Group looks forward to building the leading clean energy company in this market.

(c) Financial Review

(i) Oil and gas segment

Conventional crude oil business

With average monthly production of approximately 10,000 barrels and crude oil price in the PRC maintaining at a level above US\$70 per barrel, results of Qian An, a jointly-controlled entity continued to improve during the third quarter of 2010. Our Group's overall share of profit of Qian An for the nine months ended 30 September 2010 amounted to approximately HK\$581,000 million (2009: loss of HK\$2.9 million).

Non-conventional natural gas business

During the third quarter of 2010, our Group's non-conventional natural gas businesses were still in exploration and evaluation phases.

(ii) Information technology and network infrastructure segment

During the third quarter of 2010, our Group continued focusing our resources on energy-related business and scaled-down our IT solutions and services business. As a result of our Group's change in business model, our Group's revenue generated from IT related businesses for the nine months ended 30 September 2010 amounted to approximately HK\$244,000 (2009: HK\$236,000).

(iii) Administrative and operating expenses

For the nine months ended 30 September 2010, administrative and operating expenses amounted to approximately HK\$47.1 million (2009: HK\$31.0 million).

For the nine months ended 30 September 2010, administrative and operating expenses mainly comprised remuneration and employee compensation costs, including Directors' emoluments, of approximately HK\$16.1 million, share-based payments of approximately HK\$15.5 million, consultancy fees and investor relations costs of approximately HK\$2.9 million, and rental expenses of approximately HK\$2.8 million.

As stated in our annual report for the year ended 31 December 2009, our Group has made some correction of prior period errors. As a result, administrative and operating expenses for the nine months ended 30 September 2009 have been restated, to take into account of a reversal amortisation of intangible assets and the related deferred tax impact amounting to approximately HK\$11.7 million; and a downward adjustment for bonus which should have been recognised in prior periods amounting to approximately HK\$4.6 million.

(iv) Other comprehensive income

During the nine months ended 30 September 2010, exchange differences arising on translation of Canadian operation amounted to approximately HK\$16.4 million (2009: unrealised net exchange gain of HK\$83.6 million), because the Canadian dollars as a functional currency, against the Hong Kong dollars as a presentation currency, increased by approximately 2% when translating the carrying value of our Group's Canadian subsidiary.

(v) Loss attributable to our equity holders

As a result of the above-mentioned factors, loss attributable to our equity holders for the nine months ended 30 September 2010 amounted to approximately HK\$45.1 million (2009: HK\$30.7 million).

(vi) Liquidity and financial resources

For the period under review, our Group's major business operations took place in Hong Kong, the PRC and Canada, and were financed mainly by internally generated cash flows and fund raised from previous share placements. As of 30 September 2010, our Group had bank balances and cash of approximately HK\$186.3 million (31 December 2009: HK\$79.5 million). Our Group's working capital ratio stood at 1.1 as of 30 September 2010 (31 December 2009: 2.5).

Our Group adopts conservative treasury policies in managing its cash and financial matters, with our 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\$. Our Group's financial risk management objectives and policies are reviewed regularly by our Board.

As of 30 September 2010, our Group maintained a debt-free capital structure.

(vii) Charge on group assets

As of 30 September 2010, our Group did not have any charges on our Group's assets (31 December 2009: Nil).

(viii) Gearing ratio

As of 30 September 2010, our Group had no payables incurred which were not in the ordinary course of business and accordingly the gearing ratio was nil.

(ix) Foreign exchange exposure

Our Group mainly earned revenue and incurred costs in HK\$, RMB, C\$ and US\$. Risk on exposure to fluctuation in exchange rates was insignificant to our Group despite there was fluctuation in the exchange rate between US\$ against C\$. Our Directors and senior management will continue to monitor closely the exchange risk and hedging by forward contracts and applicable derivatives when necessary.

(x) Capital commitments

As of 30 September 2010, our Group had capital commitments amounting to approximately HK\$13.4 million (31 December 2009: HK\$11.5 million).

(xi) Contingent liabilities

As of 30 September 2010, our Group had no contingent liabilities (31 December 2009: Nil).

(d) Significant investments and future plans for material investments

Save as disclosed herein, during the nine months ended 30 September 2010, our Group did not make any significant investments or future plans for material investments. Our Group will continue to explore new opportunities in energy-related projects and to look for potential investments in the PRC and overseas.

(e) Material acquisitions and disposals of subsidiaries and affiliated companies

During the nine months ended 30 September 2010, our Group did not effect any material acquisitions or disposals which would be required to be disclosed under the GEM Listing Rules and the Listing Rules.

III. GROWTH STRATEGIES

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 aimed 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.

China 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.

We will continue to focus on CBM exploration and production as a core strategy to expand our business. We have a proven track record of successful exploration as shown in the development of our resource base. We believe that exploration offers the lowest costs of acquiring resources given the high potential of our exploration tenements.

The development of unconventional hydrocarbon production technologies including ECBM and EOR utilizing CO₂ injection through projects located in China parallels the environmental goals of the central government of China while increasing the productive capability of natural resources in the country. The enhanced hydrocarbon production technologies are another part of our growth strategy.

IV. RESERVES

As of 31 December 2009, we had no reserves available for distribution, except that under the provisions of the Companies Law, our share premium and capital reserve less accumulated losses, of approximately HK\$79.1 million in aggregate as of 31 December 2009, may be distributed provided that immediately following the date on which a dividend is proposed to be distributed, we will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The following is the text of a letter, summary of valuation and valuation certificate, prepared for the purpose of incorporation in this circular received from Greater China Appraisal Limited, an independent property valuer, in connection with its valuation as of 30 November 2010 of the property interests of our Group.



GREATER CHINA APPRAISAL LIMITED
漢華評值有限公司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

9 December 2010

The Directors

Enviro Energy International Holdings Limited
Unit 806, Level 8, Core D
Cyberport 3
100 Cyberport Road
Hong Kong

Dear Sirs,

In accordance with the instructions from Enviro Energy International Holdings Limited (the "Company", together with its subsidiaries and jointly-controlled entity, the "Group") to value certain leasehold office premises located in Hong Kong and the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquires and obtained such further information as we consider necessary for the purpose of providing the market value of the property interests as at 30 November 2010 (referred to as the "date of valuation").

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, titleship of the property interests and the limiting conditions.

BASIS OF VALUATION

The valuation of the property interests is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

VALUATION METHODOLOGY

The properties are valued by the comparison method where comparison based on prices realized or market prices of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

ASSUMPTIONS

Our valuation has been made on the assumption that the owners sell the properties on the open market in their existing states without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the properties.

We have assumed that all consents, approvals and licences from relevant government authorities for the properties have been granted.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in this report. Moreover, it is assumed that the utilizations of the lands and improvements are within the boundaries of the sites held by the owners or permitted to be occupied by the owners. In addition, we assumed that no encroachment or trespass exists, unless noted in the report.

Other special assumptions of each property, if any, have been stated out in the footnotes of the valuation certificate for the respective properties.

TITLESHIP INVESTIGATION

We have been provided with copies of tenancy/licence agreements regarding the properties rented/licensed by the Group. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us.

We have caused search made at the Land Registry for the property located in Hong Kong.

In our valuation of the properties located in the PRC, we have relied on the legal opinions given by Zhong Lun Law Firm (the "PRC Legal Advisors") in relation to the Group's legal interest to such properties.

Any legal documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal titles to the properties set out in this report.

LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the properties. However, no structural surveys have been made and we are therefore unable to report as to whether the properties are free from rot, infestation or any other structural defects. Also, no tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided to us by the Group on such matters as tenure, occupation, lettings, rentals, floor areas and in the identification of the properties. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

OPINION OF VALUE

For the properties which are rented by the Group from independent third parties under tenancy agreements, they have no commercial value due to inclusion of non-alienation clause or otherwise due to lack of substantial profit rents or short term nature of the leases.

REMARKS

Our valuation has been prepared in accordance with the generally accepted valuation procedures and in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In valuing the properties, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

We enclose herewith the summary of valuation and the valuation certificate.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
Greater China Appraisal Limited

K. K. Ip *BLE, LLD*
Chartered Valuation Surveyor
Registered Professional Surveyor
Managing Director

Note: Mr. K. K. Ip, a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of properties in Hong Kong and the PRC since 1992.

SUMMARY OF VALUATION

Group I – Property interests rented by the Group in Hong Kong

| No. | Property | Market Value as at 30 November 2010 (HK\$) |
|-----|---|---|
| 1. | Unit 806, Level 8 Core D, Cyberport 3 100 Cyberport Road Hong Kong | No commercial value |

Group II – Property interests rented by the Group in the PRC

| No. | Property | Market Value as at 30 November 2010 (RMB) |
|-----|--|--|
| 2. | Unit 1501, 15/F, Block C Beijing Yintai Centre No. 2 Jian Guo Men Wai Da Street Zhaoyang District Beijing The PRC | No commercial value |
| 3. | Unit 1712 Jin Yuan Building South of Junction of Hu Guang Road and Qian Jin Da Street Zhaoyang District Changchun Jilin Province The PRC | No commercial value |

Total: No commercial value

VALUATION CERTIFICATE

Group I – Property interests rented by the Group in Hong Kong

| No. | Property | Descriptions and occupancy | Market value as at 30 November 2010 (HK\$) |
|-----|---|--|--|
| 1. | Unit 806, Level 8 Core D, Cyberport 3 100 Cyberport Road Hong Kong | <p data-bbox="568 512 1098 619">Cyberport community comprises four grade-A intelligent office buildings, a five-star hotel, a retail and entertainment complex and about 2,800 deluxe residences.</p> <p data-bbox="568 655 1137 768">The property comprises an office unit on level 8 within Cyberport 3 which is a 15-storey office building with underground car parking facilities within Cyberport. It was completed in 2003.</p> <p data-bbox="568 804 1098 885">The saleable floor area of the property is approximately 400.04 square metres (approximately 4,306 square feet).</p> <p data-bbox="568 921 1137 1183">The property is rented under a tenancy agreement dated 14 January 2008 between Hong Kong Cyberport Management Company Limited as lessor and the Company as lessee for a term of 3 years from 18 February 2008 to 17 February 2011 (with a 2-month rent free period) at a monthly rent of HK\$107,640, exclusive of management charge and all existing future rates, taxes, water rates, duties, charges, assessments, impositions and outgoing of a recurring nature.</p> <p data-bbox="568 1219 874 1240">The tenancy is not assignable.</p> <p data-bbox="568 1276 1129 1298">The property is occupied by the Company as an office.</p> | No commercial value |

Group II – Property interests rented by the Group in the PRC

| No. | Property | Descriptions and occupancy | Market value as at 30 November 2010 (RMB) |
|-----|--|--|---|
| 2. | Unit 1501, 15/F, Block C Beijing Yintai Centre No. 2 Jian Guo Men Wai Da Street Zhaoyang District Beijing The PRC | <p>Beijing Yintai Centre comprises 3 towers, with the main block being a composite building consists of hotel and luxury apartments, and 2 blocks of office buildings respectively situated on the east and west sides of the main block.</p> <p>The property comprises an office unit on the 15th floor within a 42-storey office building (excluding 4-level basement) completed in 2008.</p> <p>The saleable floor area of the property is approximately 29.63 square metres (approximately 318.94 square feet).</p> <p>The property is operated under a licence agreement dated 30 November 2009 between The Executive Centre (Beijing) Co., Ltd. as licensor and TerraWest Energy Corp. (a subsidiary of the Company) (“TWE”) as licensee for a term of 1 year and 3 months from 1 December 2009 to 28 February 2011 at a monthly licence fee of RMB16,000, exclusive of network & telecommunications fee.</p> <p>The licence is not assignable.</p> <p>The property is occupied by TWE as an office.</p> | No commercial value |

Notes:

Opinion of the PRC Legal Advisors is summarised as follows:

- (a) TWE is licensed to use the property under the licence agreement, which is legal and valid and constitutes binding and enforceable obligations of each of the parties thereto in accordance with the terms therein.
- (b) TWE as the licensee is entitled to use the property during the licensed period according to the licence agreement.
- (c) Unless either party proposes to the other party in writing its intention to terminate the licence 2 months prior to the expiration of the licence, the licence agreement will automatically extend on the existing terms and conditions.

| No. | Property | Descriptions and occupancy | Market value as at 30 November 2010 (RMB) |
|-----|--|--|---|
| 3. | Unit 1712 Jin Yuan Building South of Junction of Hu Guang Road and Qian Jin Da Street Zhaoyang District Changchun Jilin Province The PRC | <p>The property comprises an office unit on 17th floor within an 18-storey composite building (excluding 1-level basement) which was completed in late 2000.</p> <p>The saleable floor area of the property is approximately 49.6 square metres (approximately 533.89 square feet).</p> <p>The property is rented under a tenancy agreement dated 28 July 2010 between Chen Xi Wen as lessor and Jilin Hengli Industries Liability Co., Ltd. (a wholly-owned foreign enterprise of the Company) ("Jilin Hengli") as lessee for a term from 1 August 2010 to 1 August 2011 on an annual rent of RMB28,000, inclusive of house heating charge and management fee but exclusive of electric, water and cable charges.</p> <p>The tenancy is not assignable.</p> <p>The property is occupied by Jilin Hengli as an office.</p> | No commercial value |

Notes:

Opinion of the PRC Legal Advisors is summarised as follows:

- (a) The tenancy agreement is legal and valid and constitutes binding and enforceable obligations of each of the parties thereto in accordance with the terms therein.
- (b) Jilin Hengli as the lessee is entitled to use the property during the lease term according to the tenancy agreement.

The following is the text of the report, prepared for the purpose of incorporation in this circular prepared by Norwest Corporation, an independent competent person, in connection with the CBM potential of the Liuhuanguou CBM Project, Xinjiang Province, China.

**TECHNICAL REPORT
CBM POTENTIAL OF THE
LIUHUANGGOU CBM PROJECT
XINJIANG PROVINCE, CHINA**

Submitted to:

**ENVIRO ENERGY INTERNATIONAL HOLDINGS LTD.
AND TERRAWEST ENERGY CORP.**



November 3, 2010

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1 SUMMARY

The following report was prepared by Norwest Corporation for Enviro Energy International Holdings Ltd. (Enviro Energy) and TerraWest Energy Corp. (TWE), a non-wholly-owned subsidiary of Enviro Energy. It addresses the geology and Coalbed Methane (CBM) potential of Jurassic age coal seams that are found on the Liuhuanguo Project located in Xinjiang Province, China. Rights to develop CBM in this area were granted to TWE by China United Coalbed Methane Corporation Ltd. (CUCBM) under the terms of a Production Sharing Contract that is administered by PetroChina Coalbed Methane Company Ltd.

The current report has been prepared in compliance with the requirements of National Instrument NI 51-101. This document specifies that the procedures of the Canadian Oil and Gas Evaluation (COGE) Handbook, Volume 3, be used for the evaluation of Coalbed Methane deposits. In addition, GSC Paper 88-21, which addresses the reporting of reserves and resources for coal deposits at various levels of tectonic deformation was referred to for guidance; this document was used for assistance with the classification of resources that have been subject to a moderate level of tectonic deformation, which is the tectonic state of the coal geology of the Liuhuanguo Project.

TWE's well testing commenced in 2006 in order to conduct desorption testing; four wells were drilled, three of which secured information concerning the CBM potential of the area. These test results and the supporting exploration work to that date resulted in the participation of Petromin Resources in the project and subsequently to that of Enviro Energy. In the fall of 2008 a further two wells were drilled and one of these was flow tested. In 2009 three more wells were drilled and desorption tested.

Outcrop mapping and drilling has demonstrated that the sequence containing the seams of the J2_x Formation is continuous from beyond the west side of the project to the east. Different nomenclature systems have been used from one regional location to another but the one used in the Liuhuanguo Project area defines the principal seams of this formation as Seams 4-5, 9-10 and 14-15. Other seams occur in the contract area and are similarly numbered in sequence but CBM resource for those is not addressed and their gas contents have not yet been tested. The identification of the main seams of the J2_x Formation is illustrated on Table 1.1. Drilling and mapping has shown that similar geological conditions, with respect to continuity and correlation, also exist for the J1_b Formation and the seams in it on the project area. Table 1.2 shows the average values for the gross and net coal thickness.

TABLE 1.1
LIUHUANGGOU PROJECT CBM TECHNICAL REPORT
XISHANYAO FORMATION SEAMS

| Coal Seam ID | Gross Thickness (m) | N/G Ratio (%) | Net Thickness (m) |
|--------------|---------------------------|------------------|-------------------------|
| 4-5 | 9.59 | 65 | 6.23 |
| 9-10 | 10.78 | 70 | 7.55 |
| 14-15 | 16.84 | 71 | 11.96 |
| Total | <u>37.21</u> | <u>71</u> | <u>25.74</u> |

TABLE 1.2
LIUHUANGGOU PROJECT CBM TECHNICAL REPORT
BADAOWAN FORMATION SEAMS

| Seam Name | Gross Thickness (m) | N/G Ratio (%) | Net Thickness (m) |
|-----------|---------------------------|------------------|-------------------------|
| All | <u>27.35</u> | <u>70</u> | <u>19.15</u> |

Coal resource estimation was completed by computer. The coal volume for each resource category and for each cover depth increment in the range from 300 m to 1,500 m was estimated for each of the three J2_x Formation seams. Norwest's engineering group processed the Desorption and Adsorption Isotherm data and used the results to estimate gas content values at the average depth for each of the coal resource groups.

A production test of the J2_x 14-15 Seam was conducted during 2009 at LHG 08-01 by installing an artificial lift system and pumping water from the well for roughly one month. The pressure in the well was gradually reduced while the production rates were closely monitored so that reliable measurements could be made of the reservoir pressure, desorption pressure and coal permeability. The recorded data shows gas desorption pressure was reached during the production test at LHG 08-01. The fact a single well can dewater the coal and initiate gas desorption is an important finding and indicates that close well spacing is not necessary for future pilot testing or development.

The gas content values were applied to the coal resource values to estimate the Discovered GIIP resource for the Liuhuanguou Project. These results are shown on Table 1.3.

TABLE 1.3
LIUHUANGGOU CBM PROJECT
DISCOVERED GIIP RESOURCE ESTIMATE

| Formation | Seam | Depth (m) | Low Est. | Best Est. | High Est. |
|-----------|-------|--------------|--------------------------|------------------------------------|--|
| | | | (Billion scf) (Meas.) | (Billion scf) (Meas. + Ind.) | (Billion scf) (Meas.+ Ind.+Inf.) |
| J2x | 4-5 | 300-600 | 5.23 | 7.20 | 9.57 |
| | | 600-900 | 6.46 | 9.47 | 19.77 |
| | | 900-1,200 | 3.43 | 7.69 | 22.56 |
| | | 1,200-1,500 | 0.00 | 1.20 | 21.78 |
| | 9-10 | 300-600 | 5.00 | 6.42 | 12.41 |
| | | 600-900 | 9.48 | 20.28 | 30.02 |
| | | 900-1,200 | 6.45 | 11.07 | 35.60 |
| | | 1,200-1,500 | 0.50 | 4.60 | 23.37 |
| | 14-15 | 300-600 | 3.45 | 4.20 | 8.99 |
| | | 600-900 | 13.76 | 28.33 | 41.07 |
| | | 900-1200 | 9.13 | 17.39 | 62.10 |
| | | 1,200-1,500 | 1.77 | 8.22 | 78.58 |
| | | Subtotal | 64.66 | 126.07 | 365.80 |
| J1b | All | Subtotal | 5.34 | 21.36 | 148.27 |
| | | Total | 70.00 | 147.43 | 514.07 |

The land area addressed by the Best estimate for the J2_x Seams is approximately 31.83 sq. km. or 12.29 sq. miles. The same area addressed by the J1_b Seam is a much smaller area at this time of only 3.2 sq. km. or 1.3 sq. miles. For reference, the areas currently addressed for the Low estimate are 22.29 sq. km. (8.61 sq. miles) and 0.81 sq. km. (0.31 sq. miles) for the J2_x and J1_b Seams respectively. For the High estimate the equivalent areas are 59.64 sq. km. (23.04 sq. miles) and 22.46 sq. km. (8.68 sq. miles) for the J2_x and J1_b Seams respectively.

Based on the Best Estimate areas provided in the previous section, these in place CBM resources represent about 10.3 bcf /section for the J2_x seams alone and an additional 16.4 bcf /section for the J1_b Seams.

The recoverable fraction of the GIIP is classified as a contingent resource. The contingent resource is shown on Table 1.4. The most important issues that cause the resources to be classified as contingent are the following.

TABLE 1.4
LIUHUANGGOU CBM PROJECT
CONTINGENT RESOURCE ESTIMATE

| Formation | Seam | Depth (m) | Low Est. | Best Est. | High Est. |
|-----------|-------|--------------|------------------|-------------------------|--------------------------------|
| | | | (bcf) (Meas.) | (bcf) (Meas. + Ind.) | (bcf) (Meas.+Ind. +Inf.) |
| J2x | 4-5 | 300-600 | 0.84 | 1.15 | 1.53 |
| | | 600-900 | 1.03 | 1.52 | 3.16 |
| | | 900-1200 | 0.55 | 1.23 | 3.61 |
| | | 1,200-1,500 | 0.00 | 0.19 | 3.48 |
| | 9-10 | 300-600 | 2.60 | 3.34 | 6.45 |
| | | 600-900 | 4.93 | 10.55 | 15.61 |
| | | 900-1200 | 3.35 | 5.76 | 18.51 |
| | | 1,200-1,500 | 0.26 | 2.39 | 12.15 |
| | 14-15 | 300-600 | 1.83 | 2.23 | 4.76 |
| | | 600-900 | 7.29 | 15.01 | 21.77 |
| | | 900-1,200 | 4.84 | 9.21 | 32.91 |
| | | 1,200-1,500 | 0.94 | 4.36 | 41.65 |
| | | Subtotal | 28.46 | 56.93 | 165.60 |
| J1b | All | Subtotal | 2.83 | 11.32 | 78.58 |
| | | Total | 31.29 | 68.26 | 244.18 |

The most important issues that cause these resources to be classified as contingent and not, for example, as reserves, is due to the fact that there is not sufficient reservoir engineering and production testing data available at present to show that commercial gas production is assured; some appropriate form of pilot production test is required. Other factors that will need to be addressed before reserves can be assigned include confirmation that there is an available market for the gas and that while the PSC provides the right to produce, any necessary government issued drilling licenses or permits have been secured. While not a contingency factor, it may also be appropriate to extend the resource coverage through additional exploration so that a suitable gas supply source can be shown.

It is important that TWE confirm that the procedures being used in the Chinese laboratories are correct and are being properly applied, especially with respect to the current testing of the 2009 desorption wells. We recommend that an experienced professional be on site at the time the canisters are to be opened to witness the sample weighing, sample preparation and analysis procedures. That person should also arrange for and supervise the collection of duplicate splits of the samples and their secure dispatch to Canada where confirmation testing may be applied.

We also note that there is the potential to strongly increase the coal resource, and thus the CBM resource, for the project area if it were possible to obtain the information from the thirty five or more additional coal exploration holes that are located in the east half of the contract area. Every effort should be made to acquire this additional data and, once done, to use it to evaluate the rest of the concession. A program of further gas testing can then be designed once it is known if this data can be obtained.

2 INTRODUCTION AND TERMS OF REFERENCE

The following report was prepared by Norwest Corporation for Enviro Energy International Holdings Ltd. (Enviro Energy) and TerraWest Energy Corp. (TWE), a non-wholly-owned subsidiary of Enviro Energy. It addresses the geology and CBM potential of Jurassic age coal seams that are found on the Liuhuanguo Project located in Xinjiang Province, China. Rights to develop CBM in this area were granted to TWE by CUCBM under the terms of a Production Sharing Contract that is administered by PetroChina Coalbed Methane Company Ltd.

The current report has been prepared in compliance with the requirements of National Instrument NI 51-101. This document specifies that the procedures of the Canadian Oil and Gas Evaluation (COGE) Handbook, Volume 3, be used for the evaluation of Coalbed Methane deposits. In addition, GSC Paper 88-21, which addresses the reporting of reserves and resources for coal deposits at various levels of tectonic deformation was referred to for guidance; this document was used for assistance with the classification of resources that have been subject to a moderate level of tectonic deformation, which is the tectonic state of the coal geology of the Liuhuanguo Project.

The report addresses a variety of technical issues that apply to those leases and to lands that surround them so that a complete assessment of the CBM potential of the target area is available. The general location of the project is shown on Figure 2-1 and the contract area is illustrated on Figure 4-1.

TWE's objective is to develop its CBM resources that may be found and defined within any or all of the formations permitted under the terms of the Production Sharing Contract. The principal seams that are known to be suitable for exploration and development are located in the Badaowan and Xishanyao Formations; as many as nineteen seams have been reported for the Badaowan Formation and seventeen for the Xishanyao Formation. While these seams are not always expected to be present, their distribution throughout the target area is quite extensive.

The following is a technical report which incorporates available regional published and publicly available data regarding the coal seams and their contained gas potential. This report also includes data that has been obtained in the testing of the company's wells. The company required Norwest to use these data to address the following topics:

- Document the Jurassic geology of the concession area in so far as it applies to the development of CBM;
- Determine the gas content and composition for seams with significant lateral development in the area;
- Determine the CBM resource for those seams; and
- Report on any geological characteristics that might affect the production potential.

This target area is not yet one that is well known for CBM development. The report thus addresses many topics to provide adequate background information.

The report has been prepared within the context of the author's understanding of the petroleum legislation, taxation and other regulations affecting the production sharing contract of TWE in the People's Republic of China. The author does not have any significant knowledge of such regulations. The author viewed the fully executed copy of the production sharing contract of TWE and can attest to TWE's rights to explore for, develop, produce and sell CBM. This report is an independent opinion and must remain an independent opinion notwithstanding data utilized herein is the property of TWE.

In the context of this report the author is aware that TWE as a non-wholly-owned subsidiary of Enviro Energy, holds the interest in the CBM PSC as its only asset (CBM asset) and has no revenue or profit. The long term prospects of TWE are linked to the potential of the CBM asset which the author deems to be generally positive in light of the conclusions of the report. TWE as a non-wholly-owned subsidiary of Enviro Energy does not directly employ any technical staff but relies on contracted expertise such as Norwest Corporation consultants. The author recognizes this as one viable business option in the resource industry until a company reaches full production of resources. Enviro Energy directly employs experienced resource industry professionals.

3 DISCLAIMER

This report has been prepared for Enviro Energy and TWE, a non-wholly-owned subsidiary of Enviro Energy, by Norwest Corporation. The findings and conclusions are based on information developed by Norwest available at the time of preparation and data supplied by outside sources. Norwest staff has conducted field work for the preparation of this report and has also relied on the results of exploration documented in various public reports. The present report is intended to be used by Enviro Energy and TWE only, subject to the terms and conditions of the contract with Norwest.

4 PROPERTY DESCRIPTION AND LOCATION

Title to a share of the CBM rights of the Liuhuanggou Project located in Xinjiang Province in the Peoples Republic of China is held by TWE through a Production Sharing Contract. The company concluded this contract with China United Coalbed Methane Corp., Ltd. in 2005. TWE is a private corporation incorporated in the province of British Columbia in September, 2003, with the original intention of exploring for and developing Chinese CBM prospects. After its incorporation, Petromin Resources Limited acquired an interest in TWE and, subsequent to that, Enviro Energy International Holdings Ltd. also acquired a TWE interest. At present Petromin owns about 30%, Enviro Energy owns about 61% and about 9% of TWE is held by other parties.

Petromin Resources is a public, TSX-V listed Canadian company and Enviro Energy International Holdings Ltd. is a public company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. TWE is being reported as a 'non-wholly-owned subsidiary' of Enviro Energy, based on its shareholding percentage in TWE.

With regard to the Production Sharing Contract, TWE has provided the following information:

- The contract was approved by the China Ministry of Commerce (MOFCOM) on March 1, 2006;
- The contract has a thirty-year term with an initial five year exploration period and twenty year production period. The exploration and production periods can be extended with approval of appropriate government bodies;
- TWE holds a 47% interest in the Production Sharing Contract and China United Coalbed Methane Corp., Ltd. (CUCBM) holds 53%;
- The Production Sharing Contract boundaries are established in the contract by map coordinates; the area has not been legally surveyed. The Production Sharing Contract area covers approximately 653 sq km (255 sq miles);
- According to definitions in the Production Sharing Contract, " 'Coalbed Methane' or 'CBM' means the gas mainly consisting of methane (CH₄) and stored in the Toutunhe Formation, Xishanyao Formation, Sangonghe Formation and Badaowan Formation of Jurassic age above fifteen hundred (1500) meters in depth in the Contract Area". On this basis the parties can develop and produce all gas found in the named geologic formations to the designated depth;
- Each party to the Production Sharing Contract has the right to produce and sell gas;

- TWE is responsible for 100% of exploration expenditures during the exploration period. TWE is fully up to date in terms of required wells drilled (9) and exploration expenditures to date;
- The contract participants invest development capital pro rata and then share production according to a formula;
- Once commercial production is initiated, 70% of production is allocated to cost recovery. Operating costs are first recovered pro rata, then exploration costs are recovered by TWE, then development capital costs are recovered (with interest) pro rata and the remaining 30% of production is split pro rata. (Note: once exploration costs are recovered the parties are essentially splitting production 47%/53%);
- There is an factor which provides for a share of production to the central government when production rates get very high; the factor does not take effect until production exceeds 50mmcf/d;
- The Value Added Tax (VAT) initially established for CBM projects at 5% off-the-top has been waived by the central government;
- CBM production is royalty exempt;
- CBM selling price is eligible for 0.2¥/m³ price supplement (currently worth US\$0.85/mcf) from government.

The following table shows the co-ordinates for the location of the Contract Area and the location is shown on Figure 4-1.

TABLE 4.1
LIUHUANGGOU CBM PROJECT
COORDINATES OF PRODUCTION SHARING CONTRACT BOUNDARY

| Point | Easting (Long) | Northing (Lat) |
|--------------|------------------------|------------------------|
| S1 | 87 ⁰ 10'00" | 43 ⁰ 47'00" |
| S2 | 87 ⁰ 25'25" | 43 ⁰ 47'00" |
| S3 | 87 ⁰ 25'25" | 43 ⁰ 45'00" |
| S4 | 87 ⁰ 30'00" | 43 ⁰ 45'00" |
| S5 | 87 ⁰ 30'00" | 43 ⁰ 38'00" |
| S6 | 87 ⁰ 12'00" | 43 ⁰ 38'00" |
| S7 | 87 ⁰ 12'00" | 43 ⁰ 36'00" |
| S8 | 87 ⁰ 00'00" | 43 ⁰ 36'00" |
| S9 | 87 ⁰ 00'00" | 43 ⁰ 45'00" |
| S10 | 87 ⁰ 10'00" | 43 ⁰ 45'00" |
| A | 87 ⁰ 10'26" | 43 ⁰ 42'04" |
| B | 87 ⁰ 11'57" | 43 ⁰ 42'04" |
| C | 87 ⁰ 11'57" | 43 ⁰ 40'59" |
| D | 87 ⁰ 10'26" | 43 ⁰ 40'59" |

The area bounded by the co-ordinate points labeled A, B, C, and D is not included in the area of the Production Sharing Contract. This area is a reserve maintained by the Central Government.

5 CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE, AND PHYSIOGRAPHY

TWE's Liuhuanggou Project is located in the northwest of the Peoples Republic of China (PRC) in a geographic region named Xinjiang. Xinjiang is an administrative subdivision of the PRC of a type that is referred to as an Autonomous Region. An Autonomous Region is similar to a Province in China with its own local government. However it has more legislative rights such as the right to appoint the governor. While technically not correct from an administrative point of view, in this report Xinjiang is referred to as a province. Xinjiang Province, the location of which is shown on Figure 2-1, is the largest political subdivision of China. It occupies more than one sixth of China's total territory and a quarter of its boundary length.

Geographically Xinjiang is split by the Tian Shan Mountain range which divides it into two large drainage basins; these are the Junggar Basin in the north, which has a dry steppe climate, and the Tarim Basin in the south, which is desert surrounded by oases; much of the Tarim Basin is dominated by the Talklimakan Desert. The lowest point in Xinjiang, and in the entire PRC, is the Turpan Depression, 155 m below sea level. The highest point is the mountain K2 with an elevation of 8,611 m located on the border with Pakistan. Other mountain ranges include the Pamir Mountains in the southeast, the Karakoram in the south, and the Altai Mountains in the north. Most of Xinjiang is young geologically, having been formed from the collision of the Indian plate with the Eurasian plate. This has imposed a rugged relief over much of the province. The Tian Shan, Kunlun Shan and Pamir mountain ranges are a product of this tectonic activity. Another consequence is that Xinjiang is within a major earthquake zone.

Xinjiang's GDP was approximately 220 billion RMB (US\$28 billion) in 2004, and this increased to 420 billion RMB (US\$60 billion) in 2008. This was primarily due to the China Western Development policy introduced by the State Council to boost economic development in Western China. The oil and petrochemical sector account for 60% of the local economy. Xinjiang, bordering Russia, Mongolia, Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, Pakistan and India, has abundant oil reserves and is China's largest natural gas-producing region; the oil and gas extraction industry in Aksu and Karamay is booming, with the West-East Gas Pipeline providing infrastructure to supply Shanghai. Xinjiang's exports totaled to US\$19.3 billion, while imports were US\$2.9 billion in 2008. Most of the overall import/export volume in Xinjiang was directed to and from Kazakhstan; China's first border free trade zone (Horgos Free Trade Zone) was located at the Xinjiang-Kazakhstan border city of Horgos. Horgos is the largest land port in China's western region and it has easy access to the Central Asian market. Xinjiang also has opened its second border trade market to Kazakhstan. This is the Jeminay Border Trade Zone.

Xinjiang is a sparsely populated area covering more than 1.6 million square kilometers which is about one sixth of the country's territory. It lies adjacent to the Tibet Autonomous Region, Qinghai and Gansu Provinces to the southeast, and various countries to the east, north and west. The first expressway in the mountainous area of Xinjiang, with construction that began in this province in 2006, is designed to improve national highway 312. This highway connects Xinjiang with China's east coast, central and

western Asia, plus some parts of Europe. It is a key factor in Xinjiang's economic development. Extensive highway construction is also taking place in other parts of Xinjiang including State Road 314, Alar-Hotan Desert Highway, State Road 218, Qingshui River Line-Yining Highway, and State Road 217, as well as other roads.

The capital of Xinjiang, and by far the largest city on China's vast Western interior, is Urumqi. Urumqi has a population of over 2.5 million has developed economically since the 1990's such that it now serves as a regional transport node and commercial centre. Urumqi is served by the Urumqi Diwopu International Airport which is one of the five major airports in the People's Republic of China. It is also a hub for China Southern Airlines. A rail line connects the city to Kashgar to the southwest and the city is also on the Beijing–Almaty (Kazakhstan) railway line via Dostyk, Kazakhstan. The city has an average elevation of 800 m and a cold steppe climate prevails. It has hot summers in July with average temperatures of 24°C as well as cold winters with average temperatures in January of -16°C. The annual average temperature is 5.4°C. Urumqi is semiarid, with its summers slightly wetter than its winters. Its annual precipitation is about 240 mm.

6 PROJECT HISTORY

The area that includes the TWE's Liuhuanguo Project was originally explored by mining companies with a view to developing coal mining operations. This work was undertaken by government geological and drilling "Brigades". In 2002 and prior to that date a total drilled a total of thirty three coal exploration holes in the central region of the contract area. Coal cores were collected and these samples were subject to a variety of tests but these did not include any gas desorption analyses or any other tests specific to the evaluation of CBM.

Geologists from Norwest Corporation began their initial reconnaissance studies for coalbed methane in Xinjiang Province, China in 2003. Norwest began discussions with different government agencies in the early part of that year with the objective of acquiring the rights to ownership of the resource and permits to begin exploration. A private Canadian company, TerraWest Energy Corp. was incorporated in the province of British Columbia in September, 2003, as an entity to hold Coalbed methane rights and to act as operator for exploration for CBM. TWE conducted its first regional reconnaissance of the area in 2003 and obtained and tested the quality of the coal at that time; a report on the regional geology and the potential for the discovery of CBM resources as issued by Norwest to TWE in April, 2004. In 2005 the Production Sharing Contract agreement was concluded with China United Coalbed Methane Corp., Ltd. and this facilitated the first exploration by drilling in the area specifically for CBM.

TWE's well testing commenced in 2006 when four wells were drilled, three of which provided coal core samples on which desorption tests were conducted. These test results and the supporting exploration work to that date resulted in the participation of Petromin Resources in the project and subsequently to that of Enviro Energy.

In the fall of 2008 a further two wells were drilled and one of these was flow tested. In 2009 three more wells were drilled and desorption tested. The current report encompasses all of the exploration of these various programs.

7 GEOLOGICAL SETTING

The following is a summary of various aspects of the regional geology. Later discussions address the local geology of the Liuhuanggou Project area. In this section the following topics are addressed:

- Regional Geography and Physical Geology;
- Tectonic History; and
- Regional Stratigraphy.

7.1 REGIONAL GEOGRAPHY AND PHYSICAL GEOLOGY

The Junggar Basin, with its central Gurbantunggut Desert, is bounded by the Tien Shan to the south, the Altai Mountains to the northeast and the Tarbagatai Mountains to the northwest. The three corners are relatively open. The northern corner is the valley of the upper Irtysh River. At the western corner is the Dzungarian Gate with a recently constructed railroad that opened in 1990. The eastern corner leads to Gansu and the rest of China. In the south an easy pass leads from Ürümqi to the Turfan Depression. In the southwest the *Borohoro Mountains* branch of the Tian Shan separates the basin from the upper Ili River. The average elevation of the basin is over 500 m and the area is about 130,000 square kilometers.

The basin is surrounded by mountains and is similar to the larger Tarim Basin on the southern side of the Tian Shan Range. The location of the basin and the mountain ranges that surround it are shown on Figure 7-1. Only a gap in the mountains to the north allows moist air masses to provide the basin lands with enough moisture to remain semi-desert rather than becoming a true desert. The Junggar Basin is a structural one with thick sequences of Paleozoic-Pleistocene rocks that are noteworthy for their large estimated oil reserves. The Gurbantunggut Desert, China's second largest is in the center of the basin. Aibi Lake is the basin's catchment center.

7.2 TECTONIC HISTORY

The formation of the Junggar Basin is summarized as being the result of major crustal tectonic events that ruptured the basement sequence. The basement to the basin is part of the Angaran Craton and is composed of various lithologies including volcanics and metamorphic rocks of different grades. The Basin developed as a result of motion between the East European Plate and the Angaran Craton. The basin was subsequently deformed, during the Cenozoic, due to collision of the Indian and Eurasian crustal plates.

The tectonic evolution of the basin can be subdivided into three stages, based on petrologic and geochemical data. The first stage occurs through the Permian, the second stage from the Triassic through the Jurassic, and the third stage from the

Cretaceous through the Tertiary. Through this time period there are two events that cause major changes in the nature of the sandstone units that were deposited. These changes define the influence of collision and convergence of the basement blocks at the end of the Permian, and between the Jurassic and the Cretaceous, with the Eurasian Plate. The source-rock regions for sedimentation into the basin varied with time.

The basin has a complex polycyclic sedimentary and tectonic history from Late Permian to late Tertiary time. The main stratigraphic boundaries are unconformities that bound tectonically induced sedimentary cycles. The depositional style is the product of a continental environment exhibiting changes from alluvial fan/fluvial to lacustrine conditions within each cycle. After basin formation and during the Late Permian, the basin underwent subsidence. The subsidence first took place during the Late Permian and Early Triassic following the period of magmatic activities in this region. Subsidence occurred again throughout the Middle Triassic to early Tertiary.

Evolution of the basin demonstrates multiple tectonic-thermal regimes. The basin developed on an early Late Carboniferous folded igneous basement and has experienced late Hercynian, Indosinian, Yanshanian, and Himalayan orogenys, during each of which a unique basin type and tectonic-thermal regime developed. Five tectonic-thermal stages with a general cooling trend have been identified. These are:

- Late Carboniferous to Early Permian rifting with fast burial, and high thermal gradient ($5^{\circ}\text{C} / 100 \text{ m}$);
- Middle Permian drifting with moderately fast burial and moderately high thermal gradient ($4.4^{\circ}\text{C} / 100 \text{ m}$);
- Late Permian to Late Triassic steady thermal subsidence and decreased thermal gradient ($3 \text{ to } 4^{\circ}\text{C} / 100 \text{ m}$);
- Jurassic-Cretaceous steady and extensive subsidence and low gradient ($3 \text{ to } 2.5^{\circ}\text{C} / 100 \text{ m}$); and
- Cenozoic compression, moderately fast subsidence, and low gradient ($2.5 \text{ to } 2.0^{\circ}\text{C} / 100 \text{ m}$).

As a result three dominant lithologies that are hydrocarbon source rocks were deposited. These are Middle Permian lacustrine shale, Middle and Upper Triassic littoral-lacustrine shale, and Lower and Middle Jurassic swamp-lacustrine coal. The latter is, of course, both the source and reservoir for CBM in the basin.

7.3 REGIONAL STRATIGRAPHY

The regional geology that includes the Liuhuanguo Project is illustrated on Figure 7-1. The dark and light blue units are the Jurassic Xishanyao and Badaowan Formations which include the coal measures that are the principal ones in this area. The Xishanyao Formation, which has been assigned the map codes J2_x, has a recorded thickness range in the area of 480 m to 980 m. Its average thickness is reported to be 960 m. The Badaowan Formation, which has been assigned the map codes J1_b, has a recorded thickness range in the area of 200 m to 1,000 m. Its average thickness is reported to be 830 m.

The Stratigraphy in the Liuhuanguo Project is consistent with the stratigraphy of the Southern Junggar Basin as a whole. Table 7.1, below, is a Table of Formations for the sequence surrounding the coal measures in the Southern Junggar Basin. The sequence illustrated extends from the Triassic to Quaternary.

The Xishanyao Formation consists primarily of a deltaic sequence with interbedded lacustrine sediments from place-to-place. The dominant lithologies are mudstone and sandstone with coal being a significant lithology. The deltaic sequences are better developed in the east than in the west, increasing from about thirteen units to as many as thirty in the east. The number of coal seams and the cumulative coal thickness also increases in this direction. Details of the seam development of this formation are provided in the next section of this report.

The Badaowan Formation consists primarily of a deltaic sequence with interbedded lacustrine sediments from place-to-place. The dominant lithologies are mudstone, sandstone, coal and conglomerate. The coal seams do not appear to be as strongly developed as those of the Xishanyao Formation but coal still does constitute a significant lithology. In the contract area there are twenty to fifty coal seams in the sequence; the coal seams are better developed and thicker in the lower part of the unit. The main seams range in thickness from about 1.5 m to 4.0 m and they are generally thicker in the western part of the contract area. Details of the seam development of this formation are provided in the next section of this report.

TABLE 7.1
SOUTHERN JUNGGAR BASIN, XINJIANG PROVINCE, CHINA
TABLE OF FORMATIONS

| Age | Group and Map Unit | Formation | Lithology | Thickness (M) |
|------------|--------------------|--------------------------|----------------------------|------------------|
| Quaternary | UNNAMED | Q ₄ Unnamed | Sand, gravel, silt | 0-200 |
| | | Q ₃ Xingjiang | Fluvial gravel | |
| | | Q ₂ Usu | Fluvial and pluvial gravel | |
| | | Q ₁ Xiyu | Massive conglomerate | |

| Age | Group and Map Unit | Formation | Lithology | Thickness (M) | |
|------------|--------------------|-------------------|-------------|---|------|
| Tertiary | UNNAMED | N _{ch} | Changhe | Sandy conglomerate and sandstone | 1000 |
| | | E _{2-3a} | Anjihaihe | Marl and limestone | 200 |
| | | E _{1-2z} | Ziniqanzi | Mudstone and sandstone interbedded | 300 |
| Cretaceous | UNNAMED | K _{2d} | Donggou | Gritstone and sandstone | 800 |
| | TUGULIK | K _{1tg} | Lianmuqin | Mudstone | 350 |
| | | | Shengjinkou | Gritty Argillite | 60 |
| | | | Hutubihe | Mudstone | 320 |
| | | Qingshuihe | | Sandstone | 150 |
| Jurassic | UNNAMED | J _{3k} | Kalazha | Conglomerate and mudstone | 200 |
| | | J _{3q} | Qigu | Mudstone | 700 |
| | | J _{2t} | Toutunhe | Grey wacke | 650 |
| | | J _{2x} | Xishanyao | Mudstone with sandstone and coal. Major coal measures | 960 |
| | | J _{1s} | Sangonghe | Sandstone | 400 |
| | | J _{1b} | Badaowan | Sandstone, mudstone and coal. Coal measures | 830 |
| Triassic | XIAOQUANGOU | T _{2xq} | Unnamed | Mudstone, sandstone, minor coal | 500 |
| | U.CANGFANGGOU | T _{1c} | Unnamed | Mudstone, sandstone and conglomerate | 300 |

7.4 SEAM DISTRIBUTION AND THICKNESS

Outcrop mapping and drilling has demonstrated that the sequence containing the seams of the Xishanyao Formation is continuous from beyond the west side of the project to the east. This continuous sequence is so readily visible that it can be identified on satellite images that cover the Junggar Basin. This is illustrated on Map 1. Coal development in this sequence also displays a high level of continuity and the principal seams have been identified in various drill holes from one location to another throughout the area.

Different nomenclature systems have been used from one regional location to another but the one used in the Liuhuanggou Project area, and which is adopted in this report, defines the principal seams of this formation as Seams 4-5, 9-10 and 14-15. Other seams occur in the contract area and are similarly numbered in sequence but CBM resource for those is not addressed and their gas contents have not yet been tested. The identification of the main seams of the Xishanyao Formation, as listed above, together with their average thicknesses and their gross thickness are illustrated on Table 7.2.

Drilling and mapping has shown that similar geological conditions, with respect to continuity and correlation, also exist for the Badaowan Formation and the seams in it on the project area. Table 7.3 shows the nomenclature used for seam identification in this formation and the average values for the gross coal thickness.

The Gross thickness of a coal seam is the total thickness, including thin rock bands. The net thickness is the "coal-only" thickness and is the part of the seam that has the capacity to store CBM and from which the gas is produced. In an earlier study of CBM in the contract area, the net thickness was estimated using the clean coal "washability" yield data available from mining studies. Such data is based on the testing of relatively large scale bulk samples and tends to be more representative than that measured from core lengths. Hence the N/G Ratio results from the washability tests have been used in this report to determine the thickness of the "desorbable" coal for the various seams. However, a check was made of the information from geophysical and core logs of the wells drilled by TWE and these data are in general agreement with values shown on Table 7.2.

TABLE 7.2
LIUHUANGGOU PROJECT CBM TECHNICAL REPORT
XISHANYAO FORMATION SEAMS

| Coal Seam ID | Gross Thickness (m) | N/G Ratio (%) | Net Thickness (m) |
|--------------|---------------------------|------------------|-------------------------|
| 4-5 | 9.59 | 65 | 6.23 |
| 9-10 | 10.78 | 70 | 7.55 |
| 14-15 | 16.84 | 71 | 11.96 |
| TOTAL | <u>37.21</u> | | <u>25.74</u> |

TABLE 7.3
LIUHUANGGOU PROJECT CBM TECHNICAL REPORT
BADAOWAN FORMATION SEAMS

| Well Name | Gross Thickness (m) | N/G Ratio (%) | Net Thickness (m) |
|--------------------|---------------------------|------------------|-------------------------|
| LHG09-01 All Seams | 28.85 | 70 | 20.20 |
| LHG09-02 All Seams | 25.85 | 70 | 18.10 |
| AVERAGE | 27.35 | 70 | 19.15 |

7.5 STRUCTURE AND DEPTH

7.5.1 Regional Structure

The Liuhuanguogou Project area is located on the southern margin of the Junggar Basin. The regional structural grain of the southern part of the basin trends mostly west north-westerly, but in the project area, the structure generally trends to the northeast. The axes of several major folds and faults occur to the north beyond the north limit of the project and the structural complexity of that part of the basin is demonstrated by that fact that bedding dips have been measured there in the range from 45° to vertical, mostly in a northerly direction. The geological structure of the project area is also complex but not to the same degree as the region to the north off the project.

Overall, there are three anticlines that occur on the project area. The axis of the main one of these trends across the project from the southwest to the northeast but, at the westerly end of this structure on the project, the trend of the axis turns to an east-west orientation and, further to the west, to a north-westerly direction. At the western limit of this structure on the project area, the beds of the north limb usually dip in the 28° to 32° range but some steeper dips have also been measured; this limb includes much of the coal area that includes the CBM resource on the project.

The axis of the two other principal anticlines generally trend parallel to that of the main one described above. The northern anticline of these additional two is located close to the northern limit of the project area and the southern anticline is found in the southeast corner of the area.

Two main synclines are located between the three anticlines and the trend of these structures is generally parallel to that of the anticlines that bound them. The most northerly on the synclines that is located on the north side of the main anticline hosts most of the CBM resource of the area explored to the present. The south limb of this syncline is, at the same time, the north limb of the main anticline and the general dip of the structure in that area is that described above. However the axis of this syncline is located quite close to the northern anticline and this indicates that the beds on this limb of the syncline are more steeply dipping than those of the south limb. In fact some measurements of the dip in this area have been made; these confirm this interpretation as they are in the range from 50° to 80°.

In addition to the fold structures described above several large faults have been mapped trending though the project area. These structures generally trend parallel to the fold axes but they sometimes do cross the folds causing the termination of the trend of the latter features. Smaller secondary fold structures have been mapped from place-to-place and these seem to usually appear in close proximity to the faults.

The seams that host the CBM resource occur in several of the syncline and anticline features in this area and have been investigated by drilling down to depths of about 1,000 m. Although the fold axes appear to be angular the fold limbs are long and there is surprisingly little evidence for extensive shearing associated with faulting; some faults have been reported but their number and displacement are less that would be expected of such a tectonically deformed location.

7.5.2 *Small-Scale and Seam Structure*

An operating coal mine was visited at a site adjacent to the project area. This provided the opportunity to inspect in detail the development of small-scale and seam structures in a location where the coal was known to subject to intense deformation. A continuous section from the floor of Seam B₄ through to the roof of Seam B₈ was examined.

In other CBM development areas around the world it has been found that sheared coal, the product of tectonic deformation of the seams, is a serious impediment to CBM producibility. Consequently inspection of the section for this feature was carefully conducted. It was found that in this 46 m thick coal section very little sheared coal or rock was present. The following zones were noted:

- A 0.1 m thick sheared zone lies in the rock strata of the floor of Seam B₄;
- A 0.3 m thick sheared zone lies in the rock strata of the floor of Seam B₅;
- The thin horizon where Seam B₇ would normally be is sheared; and
- The clastic rocks of the roof of Seam B₈ are sheared from place-to-place.

In general the coal of the seams was found to be essentially unsheared, but well cleated instead.

Overall, the coal seams in the region of interest are remarkable intact and have undergone very little shearing, even in areas of high tectonic deformation such as this example. This has positive implications for permeability within the coal seams and ultimately for economic production of CBM resources.

7.6 DEPTH OF COVER

The project area includes prospective formations with CBM development potential at variable depths across the technically viable range. Typically CBM can be economically extracted from coal seams in the 200 m to 1,500 m depth range, or even more.

Drilling and mapping in project area shows that the seams addressed extend from cover depths at subcrop in the south to more than 900 m for the part of the sequence that was previously considered for mine development. TWE's recent drilling has demonstrated that the seams are normally present to depths as much as 1,500 m or more in the west-central part of the project area.

However, outside the project area to the north, oil and gas drilling within the Junggar Basin showed that the seams were still present at depths as great as 4,000 m or more.

8 COAL QUALITY AND GAS DESORPTION ANALYSES

The quality of the coal in the Liuhuanguo Project area is based on tests that have been performed on samples collected from the recent wells drilled by TWE. The tested samples are for the materials that were originally stored in canisters and for which desorption results were obtained. Two different groups of tests have been performed on the samples that are generally referred to as proximate analysis tests, on the one hand, and petrographic analyses on the other.

One coal quality parameter that is of high importance to the characterization of coalbed methane is the moisture content that is taken to be representative of the coal in-place. Moisture often fills the cleat fracture system as well as a portion of the pore space and, in so doing, occupies molecular adsorption sites that might otherwise be occupied by methane. Thus the higher the moisture contents of the coal, the lower the potential gas storage capacity.

Most coals are assumed to be water saturated in the ground and an ASTM test procedure was developed to determine moisture content values for fully water saturated coals. The coal moisture content determined on this basis is referred to as the Equilibrium Moisture content. Coals in this condition typically produce significant quantities of water along with seam gas during CBM production. There are some coals that have little or no water in the cleat or pore system of the coal; not only do these coals produce only small quantities of water but they also have significantly enhanced gas storage, and thus production capacity.

Flow testing of the wells drilled in the Liuhuanggou Project area shows that water is normally produced along with gas from the coal seams. This is taken as evidence that these coals are water saturated. Consequently the CBM assessment in this report is based on gas contents at an Equilibrium Moisture saturation level. The Equilibrium Moisture content of the coal throughout the target area and various coal quality results based on this are shown on Table 8-1.

The various coal quality parameters and values described in this section and summarised on Table 8-1 have been used in the characterization of CBM for the target area. They have also been used to determine the CBM resources contained within it. The quality results are for a large number of canister samples of both core and cuttings collected from two wells drilled in the area.

A coal quality parameter of high importance is the determination of the rank of the coal, because for any given value of reservoir pressure this sets a limit for the potential adsorbed methane content. The rank of the coal may be determined either by reference to volatile matter content values from the proximate analysis, by reference to the heat content or by reference to reflectance from the petrographic analysis. The regional rank variation has been reported to be sub-bituminous to high volatile bituminous class, as defined by ASTM. In the present case and based on the heat content analyses of the coal from the wells sampled and tested by TWE, the rank range is from Subbituminous B to High Volatile A Bituminous. Near the boundary in the ASTM coal classification scheme, coal with heat content on a moist-mineral-matter-free basis that indicates that it has a rank of Subbituminous A, may alternatively classified as High Volatile C Bituminous if the coal has agglomerating properties. In the present study coal in this heat content is regarded as having either rank class. Overall, the heat content data indicates that the coal in the J2_x Formation on the Liuhuanggou Project area usually has a Subbituminous A / High Volatile C Bituminous rank. The data from the LHG80-01 well indicate that the rank of the coal increases to a small degree with depth. There is much less heat content data available for the J1_b Formation but these results also indicates that the coal in this formation has a rank of Subbituminous A / High Volatile C Bituminous.

TABLE 8.1
LIUHUANGGOU CBM PROJECT
COAL QUALITY SUMMARY

| Well No. | Seam ID | Range | Depth (m) | Proximate Analysis (EQ Moisture Basis) | | | | Total S (Wt%) | Proximate (dmmf Basis) | | Heat CV (Btu/lb) | |
|-------------------------|-------------------------|----------|-----------|--|-----------|------------|------------|---------------|------------------------|------------------|------------------|--------|
| | | | | Moist. (Wt%) | Ash (Wt%) | Vols (Wt%) | F.C. (Wt%) | | F.C. dmmf (Wt%) | Vols. dmmf (Wt%) | | |
| LHG 08-01 J2x Fm. | No. 4-5 | Min | 655 | 16.86 | 3.47 | 27.78 | 39.78 | 0.39 | 53.37 | 34.93 | 10,756 | |
| | | Max | 669 | 19.58 | 6.97 | 35.85 | 50.94 | 0.69 | 65.07 | 46.63 | 11,297 | |
| | | Ave | 662 | 17.94 | 4.75 | 34.02 | 43.29 | 0.49 | 56.34 | 43.66 | 11,012 | |
| | No.9-10 No.14-15 | No.9-10 | Min | 720 | 15.61 | 1.72 | 20.08 | 34.88 | 0.20 | 57.86 | 27.28 | 9,388 |
| | | | Max | 733 | 27.20 | 11.70 | 31.19 | 57.90 | 0.62 | 72.72 | 42.14 | 11,088 |
| | | | Ave | 727 | 19.49 | 5.19 | 25.77 | 49.54 | 0.42 | 65.99 | 34.01 | 10,550 |
| | | No.14-15 | Min | 751 | 14.70 | 2.35 | 18.95 | 41.92 | 0.23 | 60.90 | 23.67 | 10,809 |
| | | | Max | 784 | 26.41 | 9.36 | 30.61 | 60.76 | 0.47 | 76.33 | 39.10 | 11,487 |
| | | | Ave | 767 | 18.47 | 5.69 | 24.10 | 51.75 | 0.38 | 68.71 | 31.29 | 11,273 |
| LHG 08-03 J2x Fm. | No. 4-5 | Min | 343 | 11.20 | 4.02 | 30.58 | 43.26 | 0.37 | 57.92 | 40.99 | 10,673 | |
| | | Max | 355 | 22.00 | 4.76 | 34.93 | 49.60 | 0.46 | 59.01 | 42.08 | 12,252 | |
| | | Ave | 349 | 16.85 | 4.39 | 32.91 | 45.85 | 0.43 | 58.57 | 41.43 | 11,424 | |
| | No.9-10 No.14-15 | No.9-10 | Min | 435 | 6.80 | 3.78 | 23.82 | 31.71 | 0.09 | 53.80 | 28.09 | 9,851 |
| | | | Max | 458 | 26.50 | 29.59 | 37.42 | 59.58 | 0.55 | 71.91 | 46.20 | 12,873 |
| | | | Ave | 446 | 15.07 | 10.18 | 30.17 | 44.57 | 0.24 | 60.26 | 39.74 | 11,485 |
| | | No.14-15 | Min | 471 | 13.97 | 3.54 | 23.82 | 16.06 | 0.13 | 29.21 | 32.91 | 10,654 |
| | | | Max | 491 | 18.35 | 25.56 | 40.97 | 51.77 | 0.29 | 67.09 | 70.79 | 11,496 |
| | | | Ave | 481 | 17.06 | 12.42 | 29.70 | 40.82 | 0.16 | 58.30 | 41.70 | 11,122 |
| LHG 08-03 J1b Fm. | A - E | Min | 1,181 | 11.30 | 5.07 | 36.78 | 38.17 | 0.30 | 51.01 | 47.75 | 11,896 | |
| | | Max | 1,358 | 17.77 | 11.24 | 39.61 | 40.46 | 0.40 | 52.25 | 50.08 | 13,039 | |
| | | Ave | 1,270 | 12.53 | 7.38 | 38.63 | 39.30 | 0.35 | 51.10 | 48.88 | 12,522 | |

Vitrinite reflectance values are often also used as a means by which the rank of coal may be determined. The average values for the Mean Maximum Reflectance shown on Table 8-2 indicate a slightly higher rank in the High Volatile C to High Volatile B bituminous range and thus these results generally confirm the results based on the heat content.

TABLE 8.2
LIUHUANGGOU CBM PROJECT
PETROGRAPHIC SUMMARY

| Well No. | Seam ID | Range | Maceral Composition | | | Reflectance | | |
|--------------------|--------------------------|---------------------------|---------------------|----------------|-------------|--------------------|-----------|-------|
| | | | Vitrinite (%) | Inertinite (%) | Exinite (%) | Mineral Matter (%) | RoMax (%) | |
| LHG08-01 | J2x Formation No. 4-5 | Min | 66.31 | 27.01 | 0.59 | 2.50 | 0.54 | |
| | | Max | 69.91 | 27.93 | 0.76 | 5.00 | 0.54 | |
| | | Average | 68.11 | 27.47 | 0.68 | 3.75 | 0.54 | |
| | No.9-10 | Min | 33.76 | 18.51 | 0.39 | 3.00 | 0.54 | |
| | | Max | 66.95 | 62.86 | 1.04 | 13.50 | 0.64 | |
| | | Average | 50.36 | 40.69 | 0.71 | 8.25 | 0.59 | |
| | No.14-15 | Min | 25.61 | 35.53 | 0.39 | 3.00 | 0.63 | |
| | | Max | 57.34 | 71.00 | 1.13 | 9.00 | 0.66 | |
| | | Average | 41.24 | 52.04 | 0.69 | 6.00 | 0.65 | |
| | LHG08-03 | J2x Formation No.14-15 | Min | 34.41 | 17.44 | 0.37 | 3.00 | 0.55 |
| | | | Max | 63.41 | 57.22 | 0.95 | 18.50 | 0.62 |
| | | | Average | 49.23 | 41.39 | 0.62 | 8.75 | 0.58 |
| J1b Formation B | | Average | 84.44 | 6.60 | 1.86 | 7.00 | 0.58 | |
| | | D | Average | 76.54 | 13.98 | 1.38 | 8.00 | 0.57 |
| | | | E | Average | 68.98 | 17.62 | 2.40 | 11.00 |

Coalbed methane contents are measured as the volume of gas that is adsorbed per ton of coal. This requires that appropriate density values be determined in order to be able to convert coal volumes to tonnages. This aspect of the coal for the region was investigated in an earlier study. Table 8.3 from that work is a summary of the results for the Relative Density of the coal. In this case the analyses are only for the clean coal which is the seam fraction with adsorption gas storage properties of significance. The results show that the coal density has very little variation from one seam to the next. As a result a single density value of 1.31 g/cc was used for the conversion of coal volumes to tonnage for the CBM resource estimates in the present report.

TABLE 8.3
LIUHUANGGOU CBM PROJECT
RELATIVE DENSITY OF COAL

| Seam ID | Min | Relative Density (g/cc) | |
|---------|------|-------------------------|---------|
| | | Max | Average |
| Unnamed | 1.30 | 1.38 | 1.33 |
| 4-5 | 1.28 | 1.37 | 1.32 |
| Unnamed | 1.31 | 1.36 | 1.34 |
| 9-10 | 1.26 | 1.35 | 1.31 |
| 14-15 | 1.24 | 1.30 | 1.29 |
| Average | 1.24 | 1.38 | 1.31 |

TWE has drilled a total of nine wells in the Liuhuanguou Project area, eight of which have been used to obtain coal samples for gas desorption testing and various other measurements that are important to CBM evaluations. One of these wells has been flow tested in order to obtain reservoir and production engineering data. Those results and procedures are the subject for a later section of this report.

The gas desorption testing was conducted in China by technicians from the Coal Bureau Laboratory and Geological Bureau. Norwest supplied equipment and personnel training so that this aspect of the work could be carried out. Norwest also supervised the work in the field, compiled the results and performed the data reductions and analyses. A total of 219 canister desorption tests were completed and a summary of the results is shown on Table 8.4. Table 8.5 is also included and this shows the results of on going testing of wells LHG09-01, LHG09-02 and LHG 09-03. The application of these results to CBM resource estimation is discussed in the next section of this report.

Adsorption isotherm testing is also normally performed for CBM projects. In this test a sample of the coal is subject to a sealed methane environment and the amount of gas adsorbed by the coal, until gas saturation is achieved, is measured. The test and the measurement of the amount of sorbed gas are performed at a series of increasing pressures so that the variation with pressure can be determined. This test measures the total gas saturation potential of the coal sample and it thus determines the storage capacity of the sample for gas. The increase in storage capacity of the coal for gas with increasing reservoir pressure is a demonstration of the increase of values for this parameter with depth. The difference between the adsorption properties of a coal sample compared with the desorption measurements for the same samples is a measure of the saturation of the sample with respect to stored gas. Tables 8.5 and 8.6 are the Langmuir Pressure and Volume test results for coal of different seams in wells LHG 08-01 and LHG 08-03, respectively. These properties are the key ones that are determined in an adsorption isotherm test.

TABLE 8.4
LIUHUANGGOU CBM PROJECT
DESORPTION SUMMARY

| Well | Seam ID | Range | Depth | EQ Moist Basis | | | | | | |
|------------------------|---------|-------|-------|-----------------|--------------|-------------------|-----------------------|-----------------------|--------------------|-------------|
| | | | | Coal Quality | | | Gas Content | | | |
| | | | | Moist. (wt%) | Ash (wt%) | Lost (scf/ton) | Measured (scf/ton) | Residual (scf/ton) | Total (scf/ton) | Lost (%) |
| LHG 08-01 J2x Fm | 4-5 | Min | 655 | 16.86 | 3.47 | 3.26 | 32.66 | 17.70 | 53.62 | 2.41 |
| | | Max | 669 | 19.58 | 6.97 | 7.15 | 121.01 | 74.57 | 199.92 | 7.90 |
| | | Ave | 662 | 17.94 | 4.75 | 4.94 | 81.70 | 48.93 | 135.56 | 4.16 |
| | 9-10 | Min | 720 | 15.61 | 1.72 | 1.48 | 35.65 | 6.93 | 53.74 | 0.61 |
| | | Max | 733 | 27.20 | 11.70 | 8.07 | 154.39 | 88.42 | 243.32 | 8.93 |
| | | Ave | 727 | 19.49 | 5.19 | 4.26 | 78.90 | 46.32 | 129.49 | 4.42 |
| | 14-15 | Min | 751 | 14.70 | 2.35 | 4.28 | 21.50 | 2.55 | 32.01 | 7.54 |
| | | Max | 784 | 26.41 | 9.36 | 8.50 | 60.70 | 28.48 | 94.48 | 16.48 |
| | | Ave | 767 | 18.47 | 5.69 | 6.08 | 37.46 | 6.91 | 50.46 | 12.72 |
| LHG 08-03 J2x Fm | 4-5 | Min | 343 | 11.20 | 4.02 | | | | | |
| | | Max | 355 | 22.00 | 4.76 | | | | | |
| | | Ave | 349 | 16.85 | 4.39 | | | | | |
| | 9-10 | Min | 435 | 6.80 | 3.78 | | | | | |
| | | Max | 458 | 26.50 | 29.59 | | | | | |
| | | Ave | 446 | 15.07 | 10.18 | | | | | |
| | 14-15 | Min | 471 | 13.97 | 3.54 | 1.61 | 22.19 | 6.63 | 37.30 | 3.54 |
| | | Max | 491 | 18.35 | 25.56 | 14.58 | 66.73 | 26.34 | 102.74 | 14.19 |
| | | Ave | 481 | 17.06 | 12.42 | 6.03 | 43.87 | 15.64 | 65.92 | 9.05 |
| LHG 08-03 J1b Fm | A - E | Min | 1,181 | 11.30 | 5.07 | 35.13 | 137.47 | 14.51 | 197.14 | 15.19 |
| | | Max | 1,358 | 17.77 | 11.24 | 56.81 | 252.48 | 41.50 | 346.65 | 23.17 |
| | | Ave | 1,270 | 12.53 | 7.38 | 47.61 | 192.71 | 23.40 | 263.72 | 18.58 |

TABLE 8.5
LIUHUANGGOU CBM PROJECT
DESORPTION SUMMARY – WELLS 09-01, 09-02 & 09-03

| Well No. | Seam ID | Range | Depth (m) | EQ Moisture Basis Gas Content | | | | Lost (%) |
|----------------------|---------|-------|-----------|-------------------------------|--------------------|--------------------|-----------------|----------|
| | | | | Lost (scf/ton) | Measured (scf/ton) | Residual (scf/ton) | Total (scf/ton) | |
| LHG 09-01 J1b Fm. | All | Min | 345 | 1.83 | 65.94 | 6.66 | 105.98 | 1.37 |
| | | Max | 664 | 43.93 | 199.34 | 124.09 | 335.43 | 19.70 |
| | | Ave | 505 | 12.79 | 127.58 | 47.61 | 187.98 | 7.47 |
| LHG 09-02 J1b Fm. | All | Min | 349 | 2.03 | 47.92 | 5.69 | 86.74 | 0.75 |
| | | Max | 808 | 30.71 | 209.46 | 156.04 | 350.49 | 20.70 |
| | | Ave | 578 | 8.41 | 121.86 | 73.64 | 203.92 | 4.92 |
| LHG 09-03 J2x Fm. | 4-5 | Min | 496 | 0.40 | 16.73 | 12.94 | 30.08 | 1.34 |
| | | Max | 506 | 1.62 | 21.79 | 21.62 | 41.81 | 3.87 |
| | | Ave | 501 | 0.97 | 19.27 | 17.45 | 37.70 | 2.58 |
| | 9-10 | Min | 593 | 0.87 | 59.60 | 28.80 | 93.83 | 0.62 |
| | | Max | 613 | 4.83 | 87.73 | 78.86 | 167.63 | 4.60 |
| | | Ave | 603 | 2.64 | 75.62 | 52.40 | 130.67 | 2.13 |
| | 14-15 | Min | 647 | 1.17 | 47.04 | 44.57 | 95.18 | 0.71 |
| | | Max | 688 | 9.17 | 174.09 | 124.44 | 268.69 | 4.28 |
| | | Ave | 668 | 4.39 | 96.39 | 78.06 | 178.84 | 2.46 |

TABLE 8.6
LIUHUANGGOU CBM PROJECT
ADSORPTION ISOTHERM TEST RESULTS - LHG 08-01
(DRY ASH FREE BASIS)

| Sample ID | Coal Seam | Langmuir Volume (Scf/ton) | Langmuir Pressure (Mpa) |
|-----------|-------------------|---------------------------|-------------------------|
| Can# 02 | J2x Seam | 450.29 | 7.91 |
| Can# 09 | No. 4-5 | 585.31 | 9.15 |
| Can# 17 | J2x Seam | 310.44 | 6.68 |
| Can# 22 | No. 9-10 | 597.49 | 8.36 |
| Can# 33 | J2x Seam No.14-15 | 420.96 | 4.75 |
| Can# 40 | | 469.34 | 6.32 |
| Can# 44 | | 414.88 | 4.49 |
| Can# 47 | | 490.48 | 6.08 |

TABLE 8.7
LIUHUANGGOU CBM PROJECT
ADSORPTION ISOTHERM TEST RESULTS - LHG 08-03
(DRY ASH FREE BASIS)

| Sample ID | Coal Seam | Langmuir Volume (Scf/ton) | Langmuir Pressure (Mpa) |
|-----------|----------------|------------------------------|----------------------------|
| Can# 05 | J2x Seam | 526.05 | 5.11 |
| Can# 09 | No. 14-15 | 394.05 | 5.92 |
| Can# 15 | | 454.60 | 4.98 |
| Can# 19 | | 502.98 | 6.63 |
| Can# 38 | J1b Coal Seams | 560.33 | 7.48 |
| Can# 47 | | 652.91 | 6.13 |
| Can# 51 | | 631.45 | 5.47 |

9 EXPLORATION DRILLING

The Liuhuanggou Project area has been explored and drilled by TWE and by others active in the area before it. Available records show that the first drilling activities in the area was conducted by a mining company that intended to develop an underground coal mine in part of the area in the southern portion of the contract area. That drilling was conducted by a government operated drilling contractor who completed a total of thirty three drill holes in the underground mining prospect for the mining company. The records for that coal exploration drilling, which was undertaken prior to 2003, were obtained from the mining company by TWE and statistics related to it are shown on Table 9.1. The total depth drilled is the interval over the coal section.

The drilling contractor completed numerous other drill holes in the contract area for a total of about seventy, including those in the underground mine development area previously discussed. Most of these holes are located in the eastern portion of the contract area but records concerning their locations and the details of their coal intersections are not available to TWE. However it is known that they were drilled to test both the J2_x and J1_b Formations and coal seams of both of those sequences were routinely found.

Since 2003 when TWE started its exploration, the company has drilled a total of nine wells, eight of which have penetrated and tested various aspects of the CBM potential of the Liuhuanggou Project. Table 9.1 also includes statistical data concerning the drilling of those wells.

TABLE 9.1
LIUHUANGGOU CBM PROJECT
EXPLORATION DRILLING

| Hole/Well | Date | Depth Drilled (m) |
|---------------|------------|----------------------|
| 33 Coal holes | Pre 2003 | 12,612 |
| LHG06-01 | 27/4/2006 | 526.7 |
| LHG06-03 | 7/5/2006 | 748.8 |
| LHG06-04 | 1/6/2006 | 768.2 |
| LHG08-01 | 18/10/2008 | 784.0 |
| LHG08-03 | 23/10/2008 | 1,500.0 |
| LHG09-01 | 7/10/2009 | 748.9 |
| LHG09-02 | 4/10/2009 | 843.6 |
| LHG09-03 | 13/10/2009 | 726.6 |
| Total | | 19,259 |

10 IN-PLACE COALBED METHANE RESOURCE CHARACTERIZATION

The current reporting requirements for Coalbed Methane projects are those contained in National Instrument NI 51-101 and its attachments, NI 51-101 F1, F2, and F3. NI 51-101 CP, the Companion Policy, contains additional explanations of the items presented in NI 51-101. These documents specify that procedures described in the Canadian Oil and Gas Evaluation (COGE) Handbook be used for the reporting of petroleum resources and reserves, including those for coalbed methane. At the present time the COGE Handbook consists of three volumes. Volume 1 describes Reserves Definitions and Evaluation Practices. This volume includes material for the treatment of Resources that cannot yet be classified as Reserves. Volume 2 provides more detailed information regarding the estimation and classification procedures. The present report has been prepared in conformity with the procedures described in these documents and in Volume 3. Volume 3, while still partially in preparation, already provides specific treatment for unconventional resources including coalbed methane.

The coal geology for the Liuhuanggou Project is noteworthy for the fact that this coalfield has been subject to a moderate amount of tectonic deformation. The procedures of COGE Handbook Volume 3 do not address geology similar to this, but there are other Canadian standards in the coal industry that do. Geological Survey of Canada Paper GSC 88-21 "A Standardized Coal Resource/Reserve Reporting System for Canada (1989)", does and it includes guidelines for the evaluation of coal deposits at various levels of tectonic deformation. This document was referred to in the preparation of this report for guidance concerning the extent of the coal quantities and their classification. This formed the basis for the classification of the Discovered GIIP associated with the coal, and thus the Contingent Resources.

The characterization of methane resources for all such projects requires the evaluation of the CBM resource for the area and its composition. The CBM resource is estimated using:

- In situ coal resource tonnages for different seams at different depths of burial;
- Gas content estimates for the various seams in place in the specified depth ranges; and
- Determination of the recoverable gas quantities that apply to the in place gas resource.

Each of these topics and their applicability to the Liuhuangou CBM Project are discussed in this section

10.1 COMPUTER GEOLOGICAL MODELLING

The first step in the process leading to CBM resource characterization was the development of a computer model of appropriate aspects of the geology needed for resource quantification. This model consisted of a series of three dimensional surfaces for structure and thickness.

The first surface created was one for the topography which was based on data available on government-issue topographic maps at a scale of 1:50,000, with each covering an area of about 400 sq km. Such maps were provided for the west half of the contract area and this limited to resource characterization in the present report to that part of the area.

The mining drill hole data and that for the TWE wells was used, along with some regional information concerning geological fold and fault features, was used to produce structural surfaces for the base of the 4-5, 9-10 and 14-15 Seams. The topographic surface was used in conjunction with each of the seam structural surfaces to determine the location of the seam crop-lines. Structure contour maps for the 4-5, 9-10 and 14-15 Seams for the area from outcrop to the south and the major syncline axis to the north, from the contract limit to the west and the limit of topographic model data to the east are shown on Figures 10-1, 10-2 and 10-3, respectively.

The computer surface already produced was also used to produce cover isopach maps for the stratigraphic interval above each seam. The contours for these maps was established in 300 m intervals, over the depth range from 300 m to 1,500 m with these intervals being chosen for use in subsequent coal and gas resource estimation; it has been found that the coal in this area is subject to weathering to a depth of about 300 m and thus the seams deeper than this are the resource targets. Likewise, seams at depths greater than 1,500 m are not valid for resource estimation since the production sharing contract only applies to coal at depths less than 1,500 m. The cover isopach contours for each of the 4-5, 9-10 and 14-15 Seams are shown on Figures 10-4, 10-5 and 10-6 respectively.

The drilling data concerning the thickness of the seams was then used to produce coal seam isopach maps. A table was first prepared for the gross thickness in each hole or well for the 4-5, 9-10 and 14-15 Seams in the J2_x Formation. A similar table was prepared for all of the J1_b Formation seams. The gross thickness values were reduced to Net thicknesses using the N/G Ratio factors shown in Tables 7.2 and 7.3 respectively; this was done so that only the coal with gas desorption properties would be quantified. The net coal thickness values were modelled and isopach maps were developed for the J2_x Formation seams. These are shown on Figures 10-7, 10-8 and 10-9; similar maps were not produced for the J1_b Seams since there is only one data point where this information has been used in this study thus values from that well were simply used.

10.2 COAL RESOURCE ESTIMATION

CBM gas content measurements are reported on a gas volume per mass unit of coal, being either standard cubic feet (scf) per ton, as Imperial System units, or scc/g in the Metric System. Thus CBM resource estimation requires that the coal resource tonnage and its distribution first be determined. It is also necessary to know the extent for different resource classes including the limit for Measured, Indicated and Inferred resource areas.

The COGE Handbook Volume 3 provides guidance for such limits for contingent resources for CBM projects and the information was reviewed. These guidelines allow for a six-section radius about the limit of drilling data; this is sufficient to cover the entire area in the present geological model for the Liuhuanggou Project. However the handbook also provides for the consideration of the nature of the geology in the application of these guidelines and the six-section radius was intended for use in areas where the geology is not subject to any significant tectonic deformation. Geological mapping of the present contract area shows that it has been subjected to a moderate amount of tectonic disturbance. Thus the Canadian standards expressed in GSC Paper 88-21 for coal resource and reserve estimation, which provides for this level of tectonic disturbance, were consulted to obtain appropriate limits for Measured, Indicated and inferred resource categories. In Paper 88-21 a distance of 450 m from the data points is used for the limit for Measured Resources, from 450 m to 900 m for the Indicated category and from 900 m to 2,400 m for the Inferred category. These distances were used to prepare maps for the resource category limits for the J2_x Formation seams and for the J1_b Seams. These limits are shown on Figures 10-10 and 10-11 respectively.

Coal resource estimation was completed by computer and the results are summarised in Table 10.1. The coal volume for each resource category and for each cover depth increment in the range from 300 m to 1,500 m was estimated for each of the three J2_x Formation seams. The same volume by resource area limit was also estimated for the combined coal thickness for the average depth of the data the LHG09-02 well. These data were tabulated and converted to tons by the application of a single average density value of 1.31 g/cc. This metric value was appropriately modified for application to Imperial System short tons. Table 10.1 shows the results of this process.

TABLE 10.1
LIUHUANGGOU CBM PROJECT
COAL RESOURCE ESTIMATE

| Formation | Seam | Depth Range (m) | Measured (Million tons) | Indicated (Million tons) | Resource Coal Tonnage Inferred |
|-----------|----------|-----------------------|-------------------------------|--------------------------------|---|
| | | | | | (Million tons) |
| J2x | 4-5 | 300-600 | 127.5 | 48.1 | 57.9 |
| | | 600-900 | 37.6 | 17.5 | 59.9 |
| | | 900-1,200 | 14.1 | 17.5 | 60.9 |
| | | 1,200-1,500 | 0.0 | 4.2 | 71.7 |
| | 9-10 | 300-600 | 151.4 | 43.1 | 181.5 |
| | | 600-900 | 67.2 | 76.6 | 69.1 |
| | | 900-1,200 | 31.0 | 22.2 | 117.9 |
| | | 1,200-1,500 | 2.0 | 16.2 | 74.5 |
| | 14-15 | 300-600 | 202.9 | 44.2 | 281.6 |
| | | 600-900 | 134.9 | 142.8 | 125.0 |
| | | 900-1,200 | 47.6 | 43.0 | 232.9 |
| | | 1,200-1,500 | 7.1 | 25.9 | 282.5 |
| | | | Subtotal | 823.2 | 501.4 |
| J1b | Combined | Subtotal | 29.0 | 87.1 | 689.7 |
| | | Total | <u>852.3</u> | <u>588.4</u> | <u>2,305.0</u> |

The land area addressed by the Best estimate for the J2_x Seam is approximately 31.83 sq. km. or 12.29 sq. miles. The same area addressed by the J1_b Seam is a much smaller area at this time of only 3.2 sq. km. or 1.3 sq miles. For reference, the areas currently addressed for the Low estimate are 22.29 sq. km. (8.61 sq. miles) and 0.81 sq. km. (0.31 sq. miles) for the J2_x and J1_b Seams respectively. For the High estimate the equivalent areas are 59.64 sq. km. (23.04 sq. miles) and 22.46 sq. km. (8.68 sq. miles) for the J2_x and J1_b Seams respectively.

10.3 GAS DISTRIBUTION ANALYSIS

The next step in the estimation of the CBM resource for the project is the determination of appropriate values for the average in place gas contents for the coal resources. The application of such values to the coal tonnages allows the Discovered GIIP (Gas Initially In Place) to be presented. Norwest's engineering group processed the Desorption and Adsorption Isotherm data and used the results to estimate gas content values at the average depth for each of the coal resource groups.

Gas resource evaluation for TWE in the contract requires that the distribution of gas in the various coal measures be determined. This work includes determining how the concentration, composition, and saturation of gas vary, both vertically and laterally.

Four primary coal seams were evaluated using gas content measurements from five exploration holes and adsorption isotherms from two exploration holes drilled in the contract area. The measurements were used to develop correlation trends for the original gas content of the individual coal seams and their variation with depth and pressure. These steps yielded average total gas content and gas saturation estimates for each coal seam. The available data was examined to estimate the percentage of gas that may be recovered, the recovery factor, using standard CBM development practices. Table 10.2 lists the recovery factors along with the adsorption isotherm parameters recommended by Norwest to define the variation of gas content with depth and pressure; adsorption isotherms were measured for the J2_x 14-15 Seam from samples collected at both LHG 08-01 and LHG 08-03.

TABLE 10.2
LIUHUANGGOU CBM PROJECT
RECOMMENDED ADSORPTION ISOTHERM PARAMETERS

| Coal Seam | Data Source | P _L kpa | V _L cc/g | Methane Saturation (%) | Recovery Factor (%) |
|-----------|----------------|-----------------------|------------------------|------------------------------|---------------------------|
| J2x 4-5 | LHG 08-01 | 8530 | 516 | 40 | 16 |
| J2x 9-10 | LHG 08-01 | 7525 | 456 | 100 | 52 |
| J2x 14-15 | LHG 08-01 & 03 | 5535 | 459 | 99 | 53 |
| J1b | LHG08-03 | 6360 | 620 | 92 | 53 |

Methane gas content values were measured for samples collected from LHG 08-01, LHG 08-03, LHG 09-01, LHG 09-02 and LHG 09-03; where testing is ongoing, the current gas content values were used to define the initial total volume of gas, or original gas-in-place, in these seams. The gas initially in place volumes are multiplied by the recovery factors to determine the volume of recoverable gas.

Gas contents vary with depth and, in some cases; there may also be a significant variation from one exploration hole to another. The variability in gas content between exploration holes appears to be mainly due to oxidation of some seams above a depth of 400 m to 500 m; in such cases the seams often have relatively low gas contents. Average gas content was estimated for each coal seam over four depth intervals, from surface to 1500 m, as shown on Table 10.3. These values are based on a surface elevation of 1569 m, which is the average for LHG 09-02 and LHG 09-03.

TABLE 10.3
LIUHUANGGOU CBM PROJECT
METHANE GAS CONTENTS FOR DIFFERENT DEPTH INTERVALS

| Depth Region (m) | J2x No. 4-5 Gas Content <i>scf/ton</i> | J2x No. 9-10 Gas Content <i>scf/ton</i> | J2x No. 14-15 Gas Content <i>scf/ton</i> | J1b Gas Content <i>scf/ton</i> |
|---------------------|---|--|---|--------------------------------------|
| 0 - 300 | 0 | 0 | 0 | 31 |
| 300 - 600 | 41 | 33 | 17 | 119 |
| 600 - 900 | 172 | 141 | 102 | 184 |
| 900 - 1200 | 244 | 208 | 192 | 283 |
| 1,200 - 1,500 | 287 | 252 | 249 | 343 |

The pressure data collected during the production test and pressure transient test at LHG 08-01 indicated the water table for the J2_x No.14-15 is at an elevation of 1154 m. Based on that water table elevation, no significant volume of gas is calculated for the J2_x coal seams above a depth of 300 m. In any event, based on geological data from past mining studies, it is known that the J2_x Seams are often oxidized or even burnt to an average depth of 300 m and thus it is not appropriate to estimate gas resources for those seams over this depth range.

The gas content data from LHG 09-02 and LHG 09-01, combined with the adsorption isotherm data from LHG 08-03, indicates the water table elevation for the J1_b coal is considerably higher, at 1478 m. Based on that J1_b water table elevation, significant average gas content was estimated for the J1_b coal seam for the depth interval of 300 m to surface.

10.4 PRODUCTION TESTING

A production test of the J_{2x} No.14-15 coal seam was conducted during 2009 at LHG 08-01 by installing an artificial lift system and pumping water from the well for roughly one month. The pressure in the well was gradually reduced while the production rates were closely monitored so that reliable measurements could be made of the reservoir pressure, desorption pressure and coal permeability.

These objectives were successfully fulfilled but, for a number of reasons, the production test did not illustrate the full gas production potential of the J_{2x} in the PSC area; subsequent to the production test at LHG 08-01, results from exploration holes near the center of the resource area have shown the J_{2x} No.14-15 coal seam is saturated with gas but at LHG 08-01 the seam is at only 28% gas saturation. In addition, the coal seam is relatively deep at LHG 08-01 and this likely accounts for the fairly low coal permeability calculated from the production test. The impact of low coal permeability on well productivity is partially offset by the large net coal thickness so the J_{2x} does appear to have commercial development potential at this depth for areas where the coal is saturated with gas. An empirical correlation between depth and permeability, developed by Norwest from data collected in other basins, suggests the J_{2x} coal permeability is much higher in most other areas covered by the PSC. For example, the correlation predicts a 10-fold increase in permeability from LHG 08-01 to the LHG 08-03 location due to the coal being several hundred meters shallower at LHG 08-03.

Other reasons why the production test at LHG 08-01 did not illustrate the full J_{2x} gas production potential include the fact the test was too short to allow the gas rate to build to a peak rate and that only 60% of the J_{2x} Formation was open to production during the test. As a result of these factors, production testing of the J_{2x} Formation in an area that is more representative of the average production potential would be needed.

The recorded data shows gas desorption pressure was reached during the production test at LHG 08-01. The fact that a single well can dewater the coal and initiate gas desorption is an important finding and indicates that close well spacing is not necessary for future pilot testing or development.

10.5 DISCOVERED GAS INITIALLY IN PLACE (GIIP)

The gas content values were applied to the coal resource values to estimate the Discovered GIIP resource for the Liuhuanggou Project. These results are shown on Table 10.4. The results are presented in the format specified in the COGE Handbook which requires that the range of values, "Low", "Best" and "High" be shown. It should be noted that these terms, equivalent to P90, P50 and P10 for reserves, each apply to Measured, Measured plus Indicated and Measured plus Indicated plus Inferred respectively. There is no certainty that it will be commercially viable to produce any portion of these resources.

Based on the Best Estimate areas provided in the previous section, these in place CBM resources represent about 10.3 bcf/section for the J2_x seams alone and an additional 16.4 bcf/section for the J1_b Seams.

TABLE 10.4
LIUHUANGGOU CBM PROJECT
DISCOVERED GIIP RESOURCE ESTIMATE

| Formation | Seam | Depth (m) | Low Est. | Best Est. | High Est. |
|-----------|-------|--------------|--------------------------|------------------------------------|--|
| | | | (Billion scf) (Meas.) | (Billion scf) (Meas. + Ind.) | (Billion scf) (Meas.+ Ind.+Inf.) |
| J2x | 4-5 | 300-600 | 5.23 | 7.20 | 9.57 |
| | | 600-900 | 6.46 | 9.47 | 19.77 |
| | | 900-1,200 | 3.43 | 7.69 | 22.56 |
| | | 1,200-1,500 | 0.00 | 1.20 | 21.78 |
| | 9-10 | 300-600 | 5.00 | 6.42 | 12.41 |
| | | 600-900 | 9.48 | 20.28 | 30.02 |
| | | 900-1,200 | 6.45 | 11.07 | 35.60 |
| | | 1,200-1,500 | 0.50 | 4.60 | 23.37 |
| | 14-15 | 300-600 | 3.45 | 4.20 | 8.99 |
| | | 600-900 | 13.76 | 28.33 | 41.07 |
| | | 900-1,200 | 9.13 | 17.39 | 62.10 |
| | | 1,200-1,500 | 1.77 | 8.22 | 78.58 |
| | | Subtotal | 64.66 | 126.07 | 365.80 |
| J1b | All | Subtotal | 5.34 | 21.36 | 148.27 |
| | | Total | 70.00 | 147.43 | 514.07 |

10.6 CONTINGENT RESOURCES

Norwest's engineering group also processed the desorption and adsorption data to determine appropriate recovery factors that apply to the in-place Discovered resource to estimate the recoverable resource. This recoverable fraction of the GIIP is classified as a contingent resource. The contingent resource is shown on Table 10.5.

TABLE 10.5
LIUHUANGGOU CBM PROJECT
CONTINGENT RESOURCE ESTIMATE

| Formation | Seam | Depth (m) | Low Est. | Best Est. | High Est. |
|-----------|------|--------------|------------------|----------------------------|--------------------------------|
| | | | (bcf) (Meas.) | (bcf) (Meas. + Ind.) | (bcf) (Meas.+ Ind.+Inf.) |
| J2x | 4-5 | 300-600 | 0.84 | 1.15 | 1.53 |
| | | 600-900 | 1.03 | 1.52 | 3.16 |
| | | 900-1,200 | 0.55 | 1.23 | 3.61 |
| | | 1,200-1,500 | 0.00 | 0.19 | 3.48 |
| | 9-10 | 300-600 | 2.60 | 3.34 | 6.45 |
| | | 600-900 | 4.93 | 10.55 | 15.61 |
| | | 900-1,200 | 3.35 | 5.76 | 18.51 |
| | | 1,200-1,500 | 0.26 | 2.39 | 12.15 |
| 14-15 | | 300-600 | 1.83 | 2.23 | 4.76 |
| | | 600-900 | 7.29 | 15.01 | 21.77 |
| | | 900-1,200 | 4.84 | 9.21 | 32.91 |
| | | 1,200-1,500 | 0.94 | 4.36 | 41.65 |
| | | Subtotal | 28.46 | 56.93 | 165.60 |
| J1b | All | Subtotal | 2.83 | 11.32 | 78.58 |
| | | Total | 31.29 | 68.26 | 244.18 |

The most important issues that cause these resources to be classified as contingent and not, for example, as reserves, is due to the fact that there is not sufficient reservoir engineering and production testing data available at present to show that commercial gas production is assured; some appropriate for of pilot production test is required. Other factors that will need to be addressed before reserves can be assigned include confirmation that there is an available market for the gas and that the necessary production permits have been secured.

While not a contingency factor, it may also be appropriate to extend the resource coverage through additional exploration so that a suitable gas supply source can be shown.

11 CONCLUSIONS AND RECOMMENDATIONS

Data that has been acquired, as well as flow and other testing that have been performed have succeeded in identifying the contract area as a potentially commercial CBM development field. However, the exploration results for TWE's wells to date suggest that the gas content state is quite variable. Specifically, the testing in the 2008 wells suggests that the several of the seams may be strongly under saturated with respect to adsorbed gas; one example of this is the J1_b seams in LGH 08-03. If this were the case it would impose a heavy burden on the development of production, the quantity of the gas resource and the amount of recovery that could be achieved. However, the on-going results for the 2009 wells for the same seam sequence, both to the east and to the west of the 2008 test well, contradict that view; the 2009 wells continue to strongly desorb gas from the J1_b Formation and this indicates that the gas content for these seams is normally as high as might be expected from coal of this rank and may usually be at-or-close to a state of adsorption saturation.

Obviously the nature of the geology may be the cause of local variations such as this. However, testing procedures can also be responsible. It is important that TWE confirm that the procedures being used in the Chinese laboratories are correct and are being properly applied, especially with respect to the current testing of the 2009 desorption wells. We recommend that an experienced professional be on site at the time the canisters are to be opened to witness the sample weighing, sample preparation and analysis procedures. That person should also arrange for and supervise the collection of duplicate splits of the samples and their secure dispatch to Canada where confirmation testing may be applied.

We also note that there is the potential to strongly increase the coal resource, and thus the CBM resource, for the project area if it were possible to obtain the information from the thirty five or more additional coal exploration holes that are located in the east half of the contract area. Every effort should be made to acquire this additional data and, once done, to use it to evaluate the rest of the concession. A program of further gas testing can then be designed once it is known if this data can be obtained.

12 CERTIFICATE OF AUTHOR

CERTIFICATE OF AUTHOR

I, Geoffrey R. Jordan, P.Geol., do hereby certify that I am currently employed as Senior Geologist by Norwest Corporation, 2700, 411 - 1 Street SE, Calgary, Alberta, Canada T2G 4Y5.

1. I graduated with a Bachelor of Science degree from the University of New South Wales in 1971.
2. I am a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta, (Member #22095) and the Association of Professional Engineers and Geoscientists of B.C., (Member #30827).
3. I have worked as a geologist for a total of thirty-nine years since my graduation from university.
4. I have read the definition of "qualified person" set out in National Instrument 51-101 ("NI 51-101") and certify that by reason of my education, affiliation with a professional association (as defined in NI 51-101) and past relevant work experience, I fulfill the requirements to be a "qualified person" for the purposes of NI 51-101.
5. I am responsible for the preparation of all sections of the technical report titled "Technical Report CBM Potential of the Liuhuanggou Project, Xinjiang Province, China" dated November 3, 2010 (the "Technical Report") relating to the property.
6. A personal field inspection of the site was made by me on two separate occasions during 2004.
7. I am not aware of any material fact or material change with respect to the subject matter of the Technical Report that is not reflected in the Technical Report, the omission to disclose which makes the Technical Report misleading.
8. I am independent of the issuer in accordance with the requirements of NI 51-101.
9. I have read National Instrument 51-101 and the Technical Report has been prepared in compliance with that instrument.
10. I consent to the filing of the Technical Report with any stock exchange and other regulatory authority and any publication by them, including electronic publication in the public company files on their websites accessible by the public, of the Technical Report.

Dated this 3rd Day of November, 2010

"ORIGINAL SIGNED AND SEALED BY AUTHOR"

Signature of Qualified Person
Geoffrey R. Jordan, P. Geol.
Print name of Qualified Person

CONSENT OF AUTHOR

TO: Commission des Valeurs Mobilières du Québec
Ontario Securities Commission
Manitoba Securities Commission
Saskatchewan Financial Services Commission – Securities Division
Alberta Securities Commission
British Columbia Securities Commission

I, Geoff Jordan, do hereby consent to the public filing of the Technical Report titled “Technical Report CBM Potential of the Liuhuanggou Project, Xinjiang Province, China” dated November 3, 2010 (the “Technical Report”).

Dated this 3rd Day of November, 2010.

“ORIGINAL SIGNED AND SEALED BY AUTHOR”

Signature of Qualified Person
Geoff Jordan, P. Geol.

Print name of Qualified Person

13 ILLUSTRATIONS

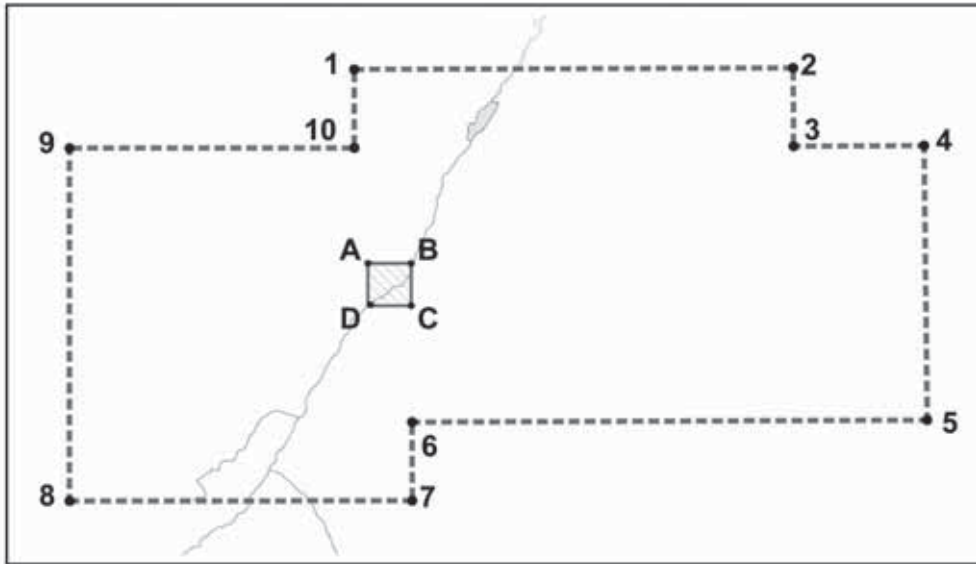
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PRODUCTION SHARING CONTRACT AREA

| No. | Longitude | Latitude | No. | Longitude | Latitude |
|-----|-------------|-------------|-----|-------------|-------------|
| 1 | 87° 10' 00" | 43° 47' 00" | 6 | 87° 12' 00" | 43° 38' 00" |
| 2 | 87° 25' 25" | 43° 47' 00" | 7 | 87° 12' 00" | 43° 36' 00" |
| 3 | 87° 25' 25" | 43° 45' 00" | 8 | 87° 00' 00" | 43° 36' 00" |
| 4 | 87° 30' 00" | 43° 45' 00" | 9 | 87° 00' 00" | 43° 45' 00" |
| 5 | 87° 30' 00" | 43° 38' 00" | 10 | 87° 10' 00" | 43° 45' 00" |

EXCLUDED AREA

| No. | Longitude | Latitude | No. | Longitude | Latitude |
|-----|-------------|-------------|-----|-------------|-------------|
| A | 87° 10' 26" | 43° 42' 04" | C | 87° 11' 57" | 43° 40' 59" |
| B | 87° 11' 57" | 43° 42' 04" | D | 87° 10' 26" | 43° 40' 59" |

TerraWest Energy Corp.

LIUHUANGGOU COAL PROJECT

**PRODUCTION SHARING
CONTRACT AREA**

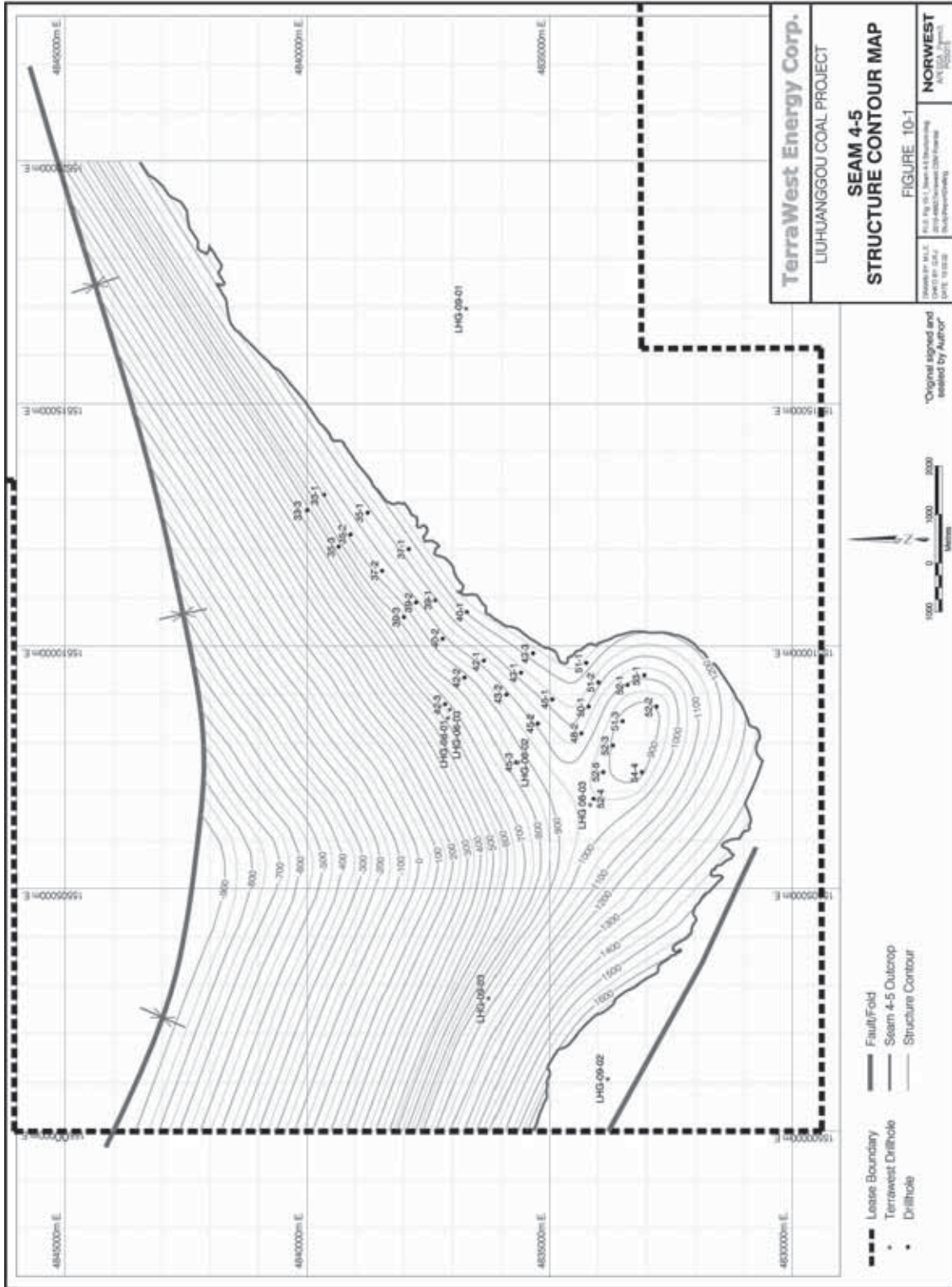
FIGURE 4-1

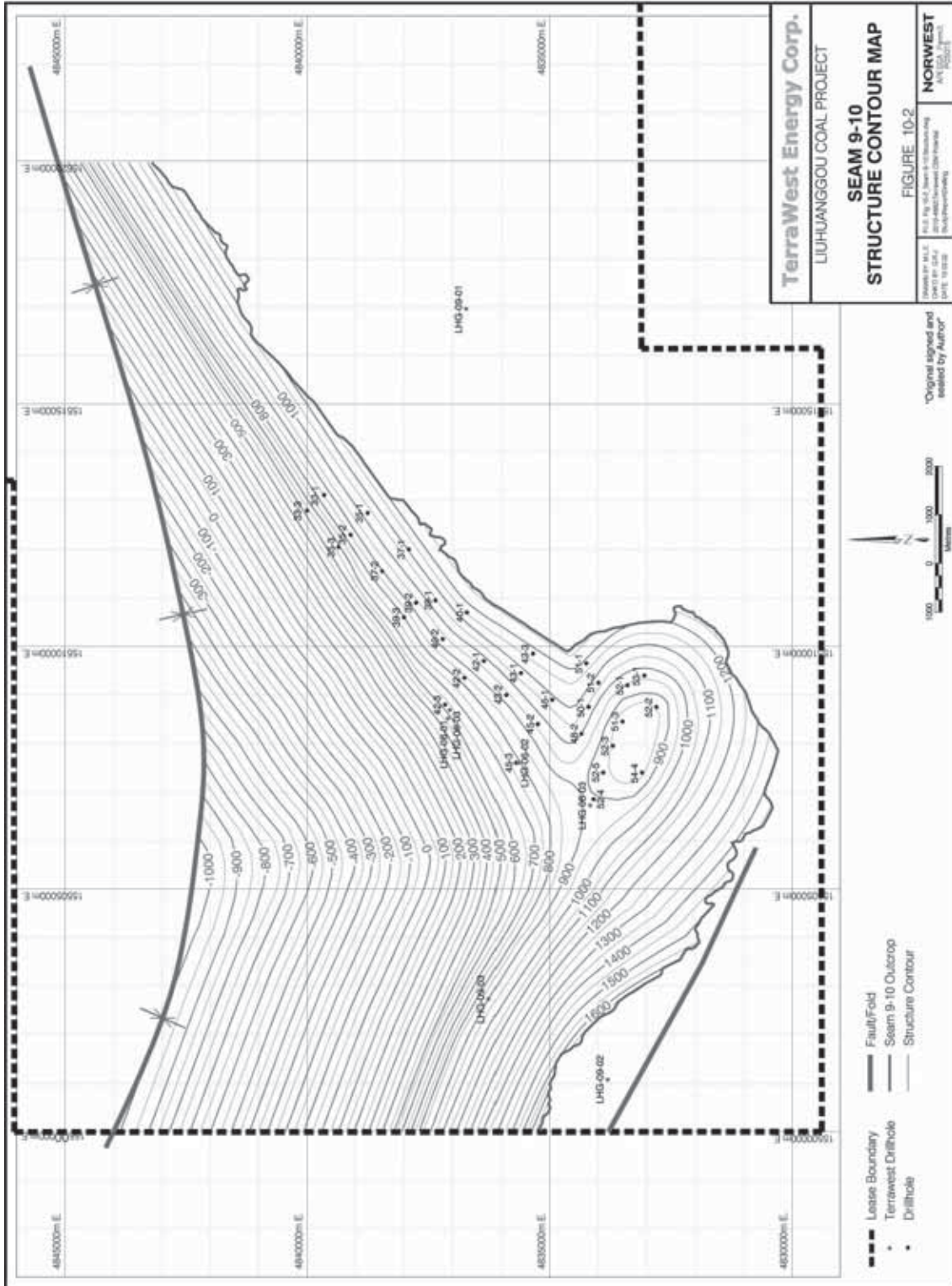
*Original signed and
sealed by Author*

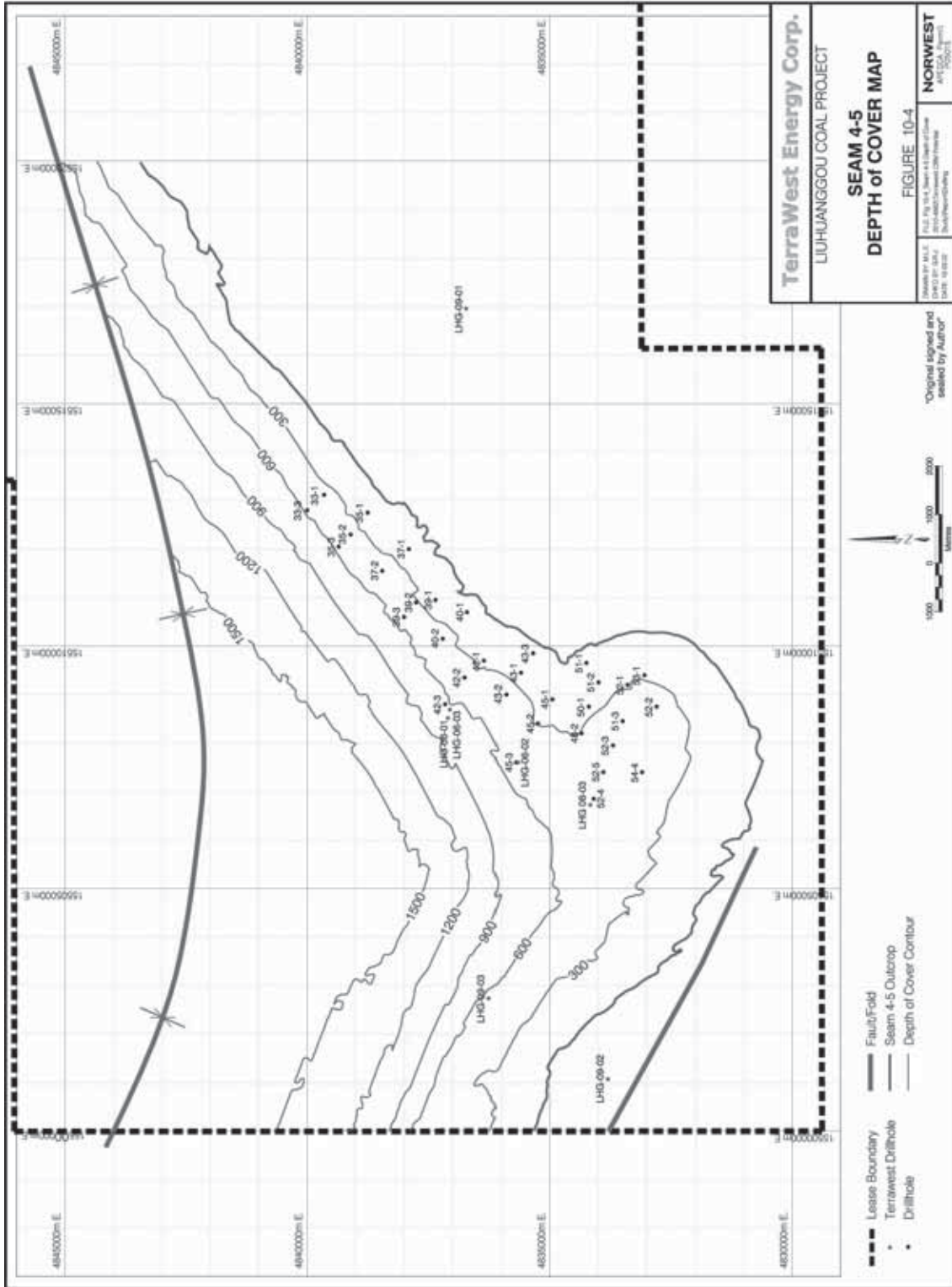
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CHECKED BY: S.R.J.
DATE: 10/22/12

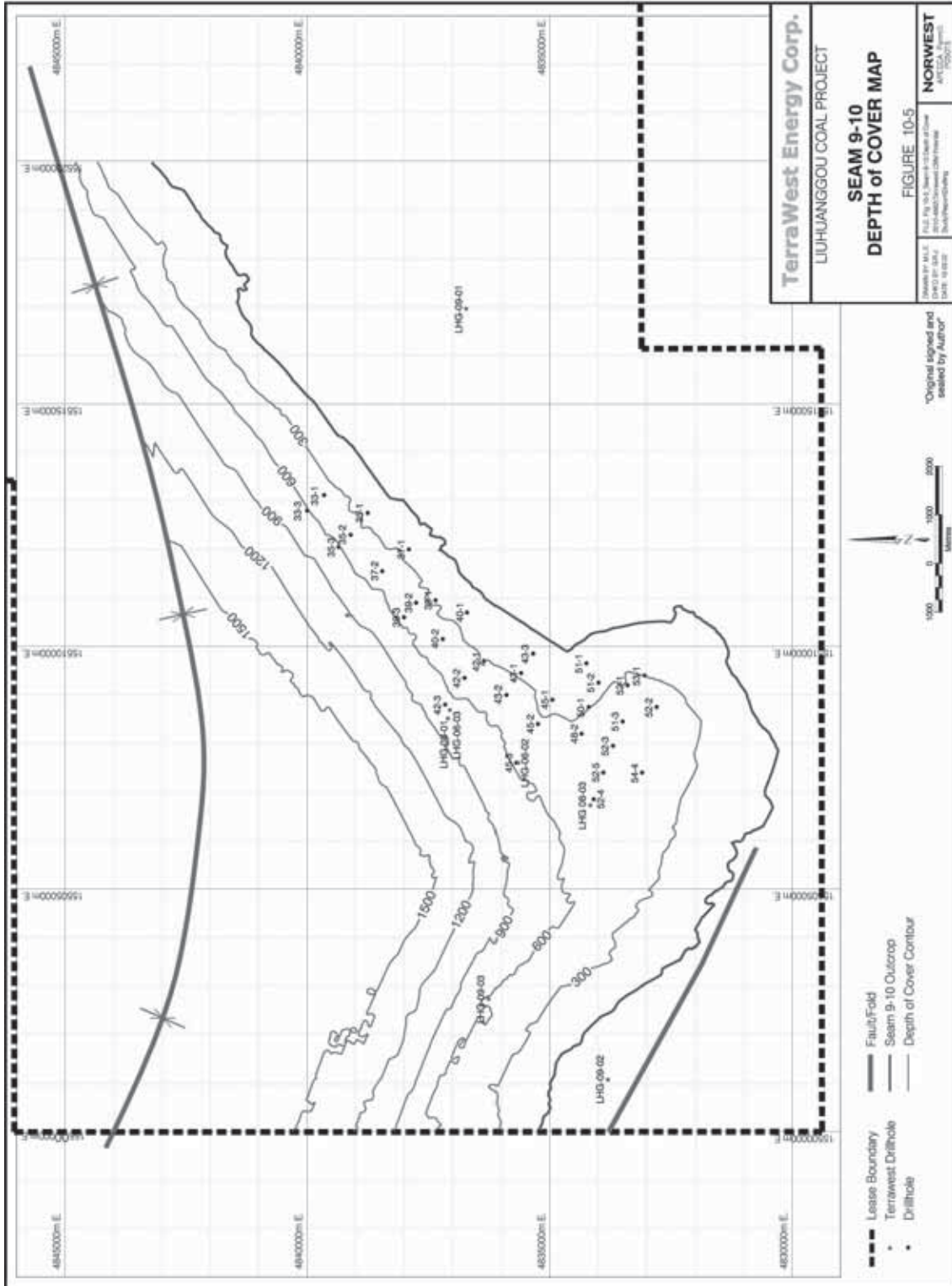
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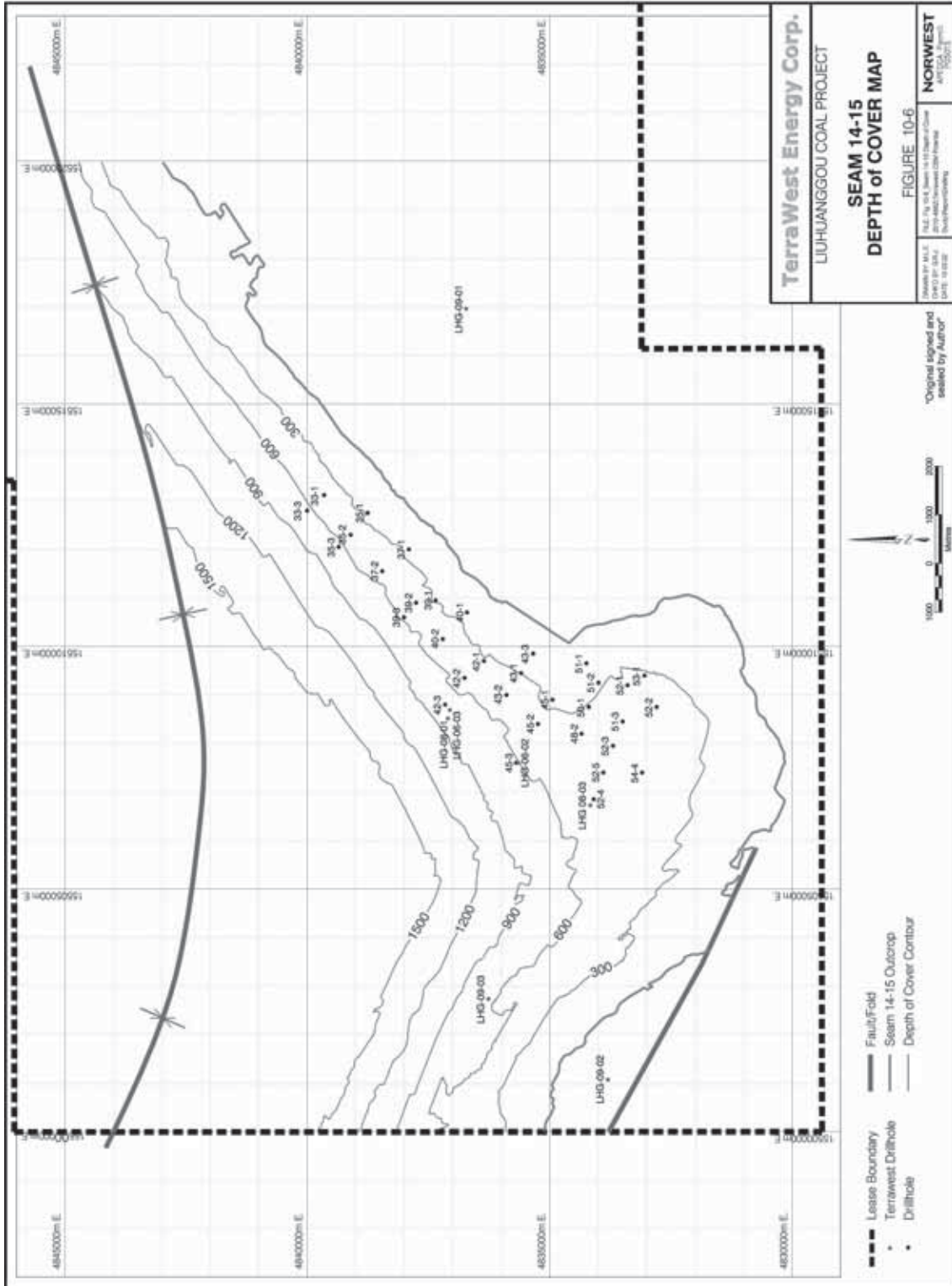
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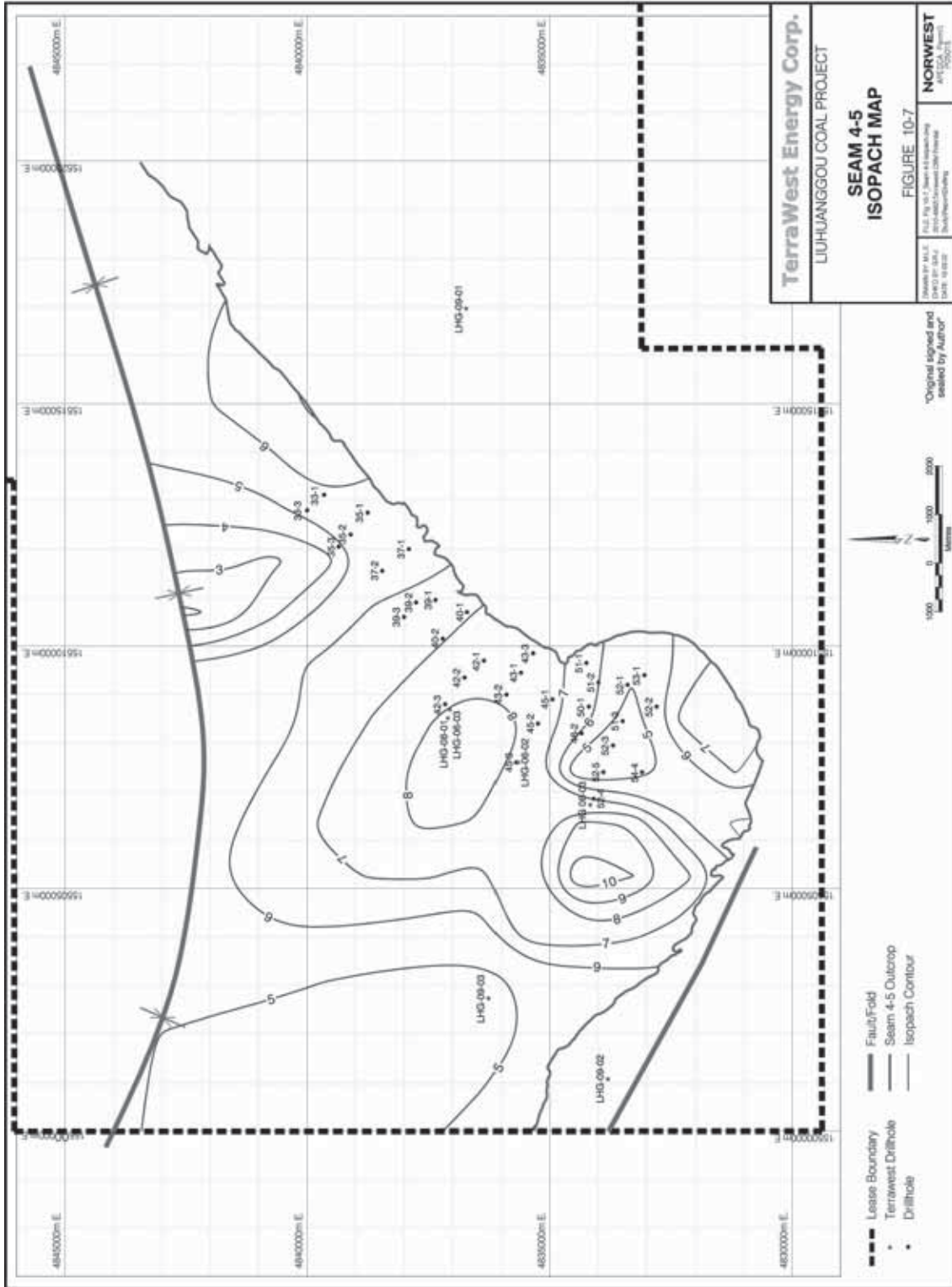


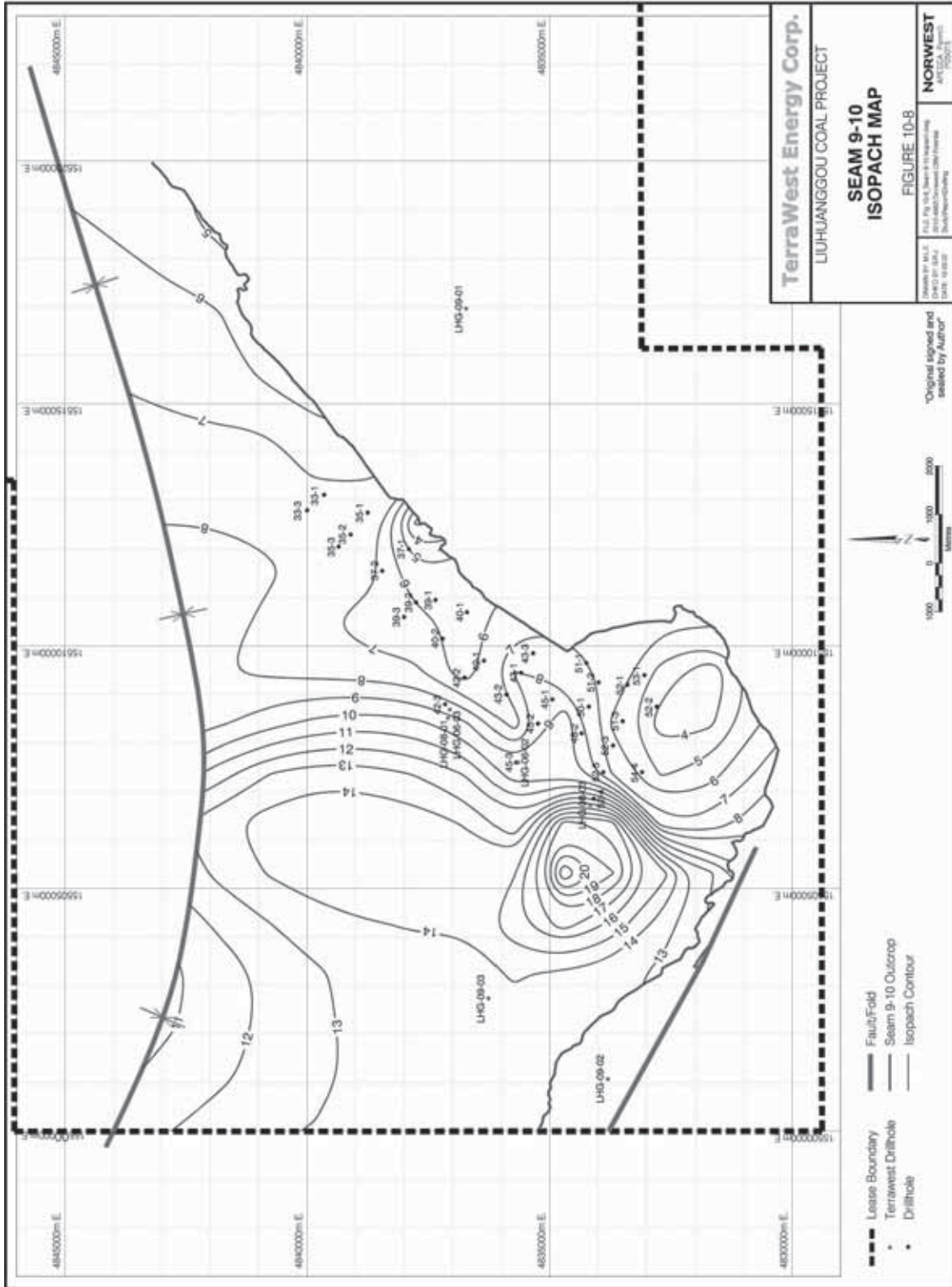


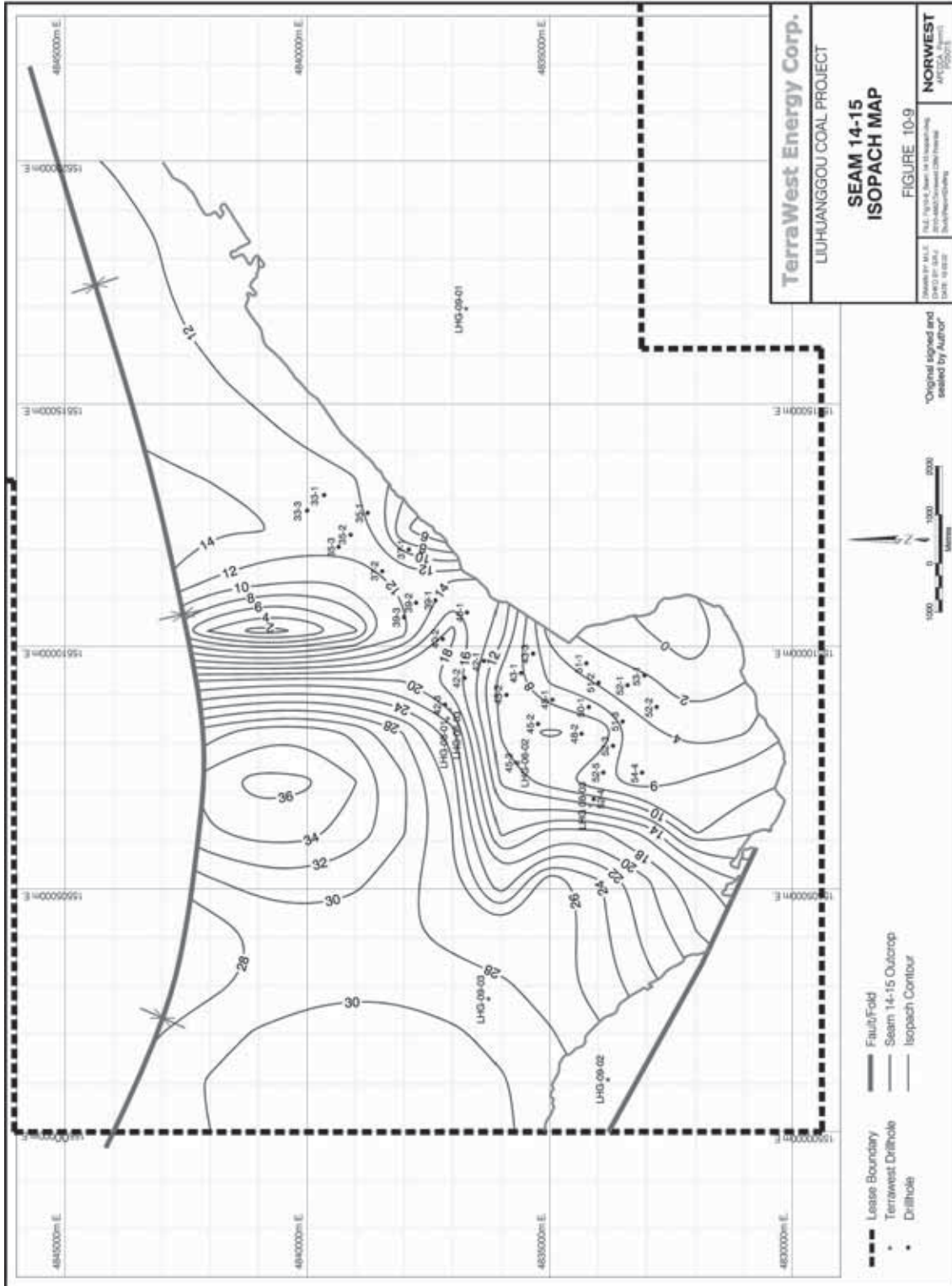


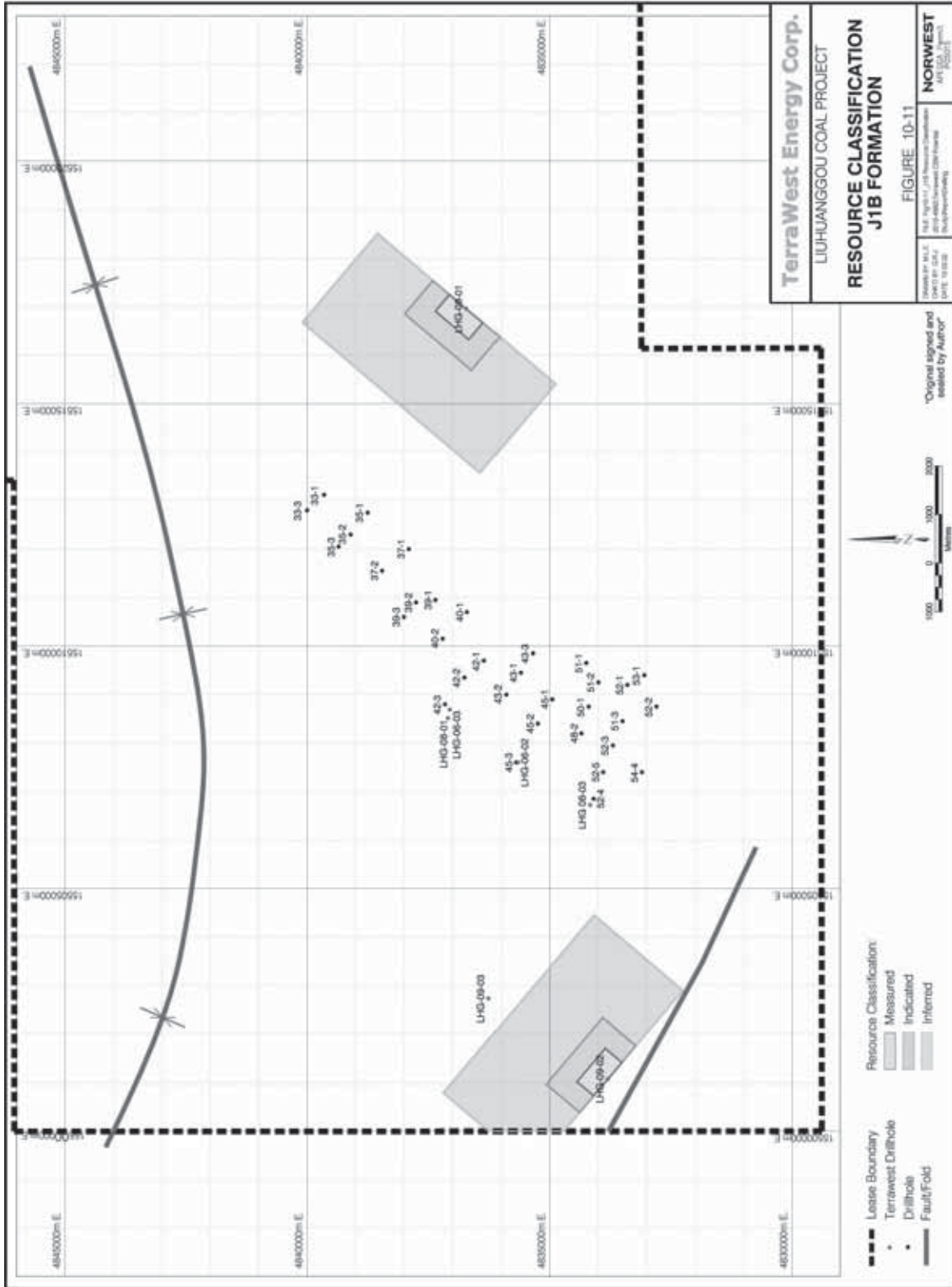


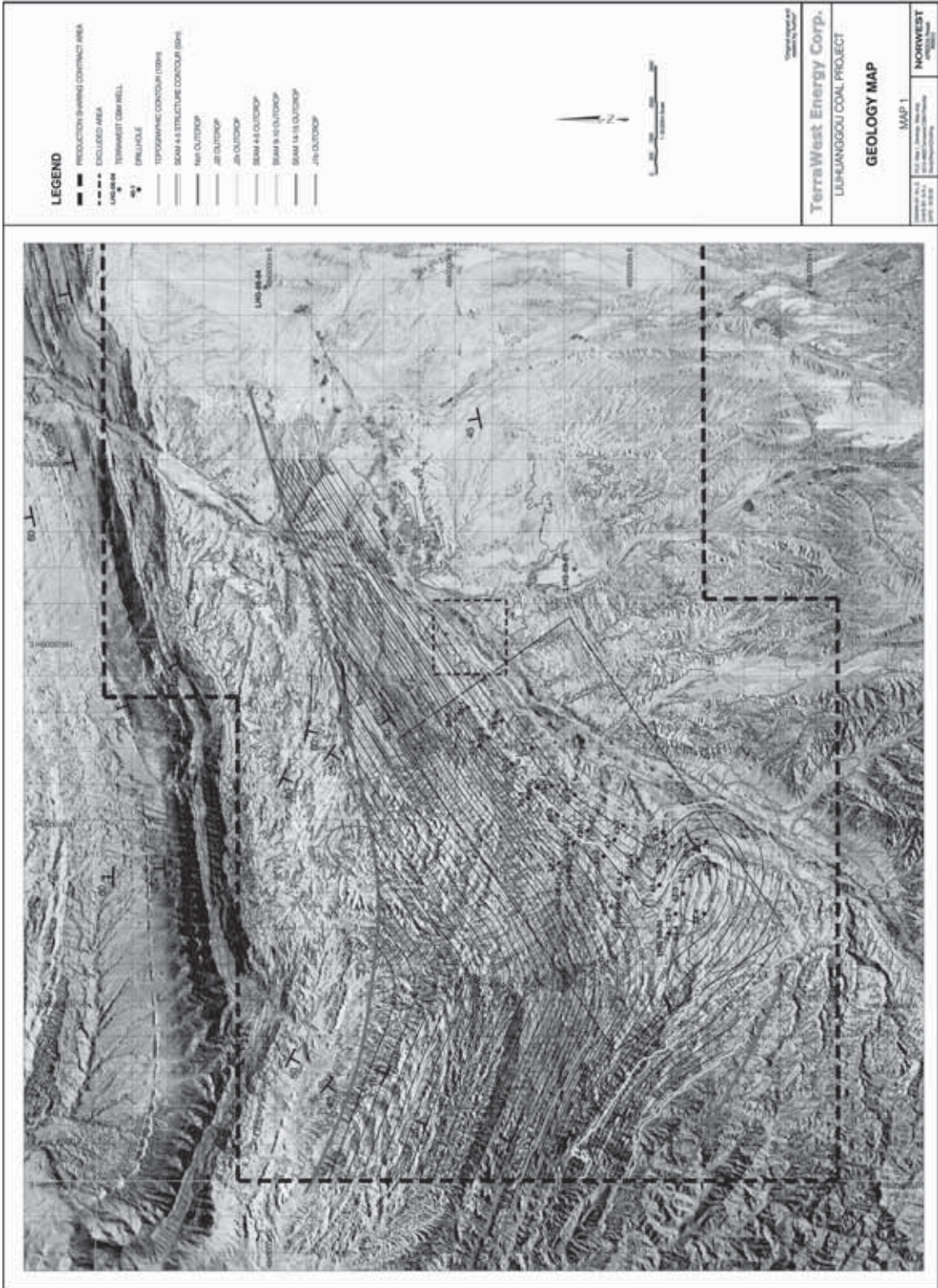












Our Company has a plan to proceed to production of the CBM resources located within the Liuhuanggou PSC area. Our Company's plan is supported by a Scoping Study substantiated by Source Rock Engineering.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from Source Rock Engineering, an independent competent person, in connection with the Scoping Study.

Source Rock Engineering

Suite 335, 7931 South Broadway

Littleton, CO USA 80122

9 December 2010

Enviro Energy International Holdings Limited
Unit 806, Level 8, Core D, Cyberport 3
100 Cyberport Road
Hong Kong

Attn: The Board of Directors

Dear Sirs:

Re: Substantiation of Liuhuanggou Project Scoping Study Assumptions

Introduction

Enviro Energy International Holdings Limited (the "Company") requested Source Rock Engineering ("Source Rock") review, opine on and substantiate the assumptions currently utilized in the Liuhuanggou Project Scoping Study as prepared by the Company, which is expected to be included in a public circular of the Company. This opinion letter provides the results of that review.

The CBM project development assumptions were used in a scoping study provided by the Company. The assumptions cover indicative production and cost forecasts for a general development scheme for a particular area of the Liuhuanggou Project. Details regarding the development scheme are not included in the Scoping Study and possibly have not yet been prepared by the Company at this particular stage of the project.

In substantiating the assumptions utilized in the Scoping Study, the author was guided by the following definitions and requirement:

"Scoping Study": a preliminary evaluation of a mineral project, including an assessment of the economic viability of mineral Resources. Scoping Studies should include forecast production schedules and cost estimates based on data under which the Resources are identified.

If a Mineral Company has not yet begun production, it must disclose its plans to proceed to production with indicative dates and costs. These plans must be supported by at least a Scoping Study, substantiated by the opinion of a Competent Person.

“Contingent Resources”: those quantities of Petroleum estimated, at a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.

In this regard the author notes that the Scoping Study is to assess the economic viability of resources yet Contingent Resources are not currently considered to be commercially recoverable (due to one or more contingencies) by definition. The author reviewed the Scoping Study in this context and considers the data provided by the Company to be indicative and not precise as to timing or value. The Scoping Study provides a legitimate pathway to future commerciality that can be understood by readers of the Scoping Study. The author considers that care should be exhibited in attaching economic criteria to Contingent Resources in public documents.

The Scoping Study has been prepared to address how the CBM project would be ramped-up from a base, or most likely, case. A proper development pace will ultimately depend on field success and funding. The Scoping Study presents, in my opinion, a case where the production and cost control results of initial development are quite good.

The capital and operating cost assumptions were reviewed by Source Rock using information compiled by Source Rock from a wide variety of coalbed methane (“CBM”) development projects around the world. The cost information compiled from these projects creates a range of expected costs for a potential development.

Projects outside of North America have historically shown higher costs than what has been accomplished within North America and Source Rock has carried this bias into estimating costs for the various development phases of the Xinjiang Liuhuanggou Project. These estimates were then used by Source Rock to form opinions on whether the assumptions used appear to Source Rock to be too high or too low. The Xinjiang Liuhuanggou Project is in an early exploration phase and it is not yet clear if the actual costs will confirm these opinions. The well costs presented in the Scoping Study are very low compared to what the costs will be on the initial wells, but making large improvements in well costs during the follow-on development phase is quite common, therefore an average capital cost is not unreasonable.

It is assumed that all cost figures in the Scoping Study are U.S. dollars and all cost figures that Source Rock provides in this letter are U.S. dollars.

Results of Review

A number of factors cause the costs for specific services to vary significantly from one CBM basin to the next and so local experience is very important to accurately estimating costs. The Liuhuanggou Project is in the stage of exploration and so there currently is a lack of actual local development cost data. As a result, there currently is a fairly broad range of costs that could be considered reasonable estimates for the various services needed to complete this project. The exception is that TWE has already conducted drilling operations in the Xinjiang CBM development area so there is more certainty in the drilling cost assumptions than in the other cost assumptions.

Generally, taken in their entirety the assumptions are not unreasonable, given the particular stage of exploration and as noted, additional work will be required to increase the certainty and precision of future evaluations and assumptions for future modeling as the project moves toward pre-feasibility and ultimately feasibility stages. The author can substantiate the estimates in the Scoping Study based on experience and understanding of CBM developments in producing CBM basins in the United States, Canada and Australia.

The following outlines the results of the Source Rock review of specific assumptions in the Scoping Study:

1. **Shrinkage and Fuel Gas:** Assumes 10%. This assumption is not unreasonable at this stage of exploration but should be re-evaluated in the future based on the actual number of prime movers and engines that will be gas-fueled.
2. **Facilities Capital Cost:** Assumes US\$200,000 per well to cover surface facilities including pipeline. This assumption is not unreasonable given the infrastructure available around the Liuhuanggou Project area.
3. **Production Well Capital:** Assumes US\$450,000 per well. Well depth and completion type have a significant impact on costs and no depth or completion type is specified in the Scoping Study. Capital requirements per well also depend on whether or not artificial lift equipment or any surface facilities are included in this category. This information is also not included in the Scoping Study for a development at this particular stage. Source Rock believes the cost assumption is reasonable if wells are shallow and if the cost category is not intended to cover any surface equipment or stimulation treatments.
4. **Production Rate Forecasts:** The Scoping Study assumes 8% annual effective decline rate and a peak gas rate of 350 mcf per day per well. The decline rate appears low for the peak rate assumption but is not unreasonable given the stage of exploration of the project. The peak rate appears high if the wells are shallow and not stimulated. No depth assumption is provided in the Scoping Study as the wells appear to be generic vertical production wells assumed to have an equal average depth. Such an assumption is not unreasonable given the particular stage of development of the project. Shrinkage should be re-evaluated in the future based on actual peak rates developed.
5. **Gas Recovery Factor:** The author acknowledges he was involved in the calculation of the gas recovery factor utilized in the Scoping Study and considers it not unreasonable.
6. **Operating Cost:** Assumes US\$0.50 per mcf. Assuming a peak well production rate of 350 mcf per day per well, the cost translates to about US\$5,000 per month per well. This cost appears to be too high but is not unreasonable.

7. **Processing and Transportation Cost:** Assumes US\$0.50 per mcf. This is reasonable assuming the coal gas does not contain unusually high levels of carbon dioxide or does not need to be transported a long distance. The distance to the nearest sales line is not provided in the Scoping Study. Sometimes the gas price in a gas sales contract accounts for some processing, transportation or compression charges. There are no details provided in the Scoping Study to allow Source Rock to determine if the gas price in the Scoping Study accounts for any of these charges. If the gas price does account for these charges then the operating cost assumptions in the Scoping Study may be too high and should be re-evaluated in the future based on actual data.

Based on review of the Scoping Study of the Liuhuanggou CBM Project the author is able to substantiate the assumptions used in the study.

Yours sincerely,
SOURCE ROCK ENGINEERING
Steve Hennings
Principal

PRODUCTION PLAN AND SCOPING STUDY

As disclosed in our Company's announcements dated 27 September 2010 and 16 November 2010, we have initiated the 2010 Program in September 2010. The 2010 Program involves drilling and production testing of up to ten pilot production wells. The wells are planned to produce CBM from target coal seams as well as natural gas from shale. We have completed the engineering design for well completions and expect to perforate and fracture (stimulate) target formations as part of the program. We have also initiated pilot testing at two locations drilled previously, namely the LHG 08-01 and 08-03 wells. In early November 2010, one pilot production well was successfully drilled to the target depth, logged, cemented and cased. Well LHG 10-01 was drilled to approximately 720 metres (2,375 feet) depth and is intended to test CBM production from the thick J2X coal seam. The control drillhole LHG 09-03 completed in 2009, intersected 63 metres (208 feet) of J2X coal at the location. Following release of the drill rig, CBM testing will begin at well LHG 10-01 and the site is now being prepared for service equipment and the testing team. Two other pilot production wells, LHG 10-02 and LHG 10-03 continue to drill ahead with target depths expected to be reached in the near future. These wells will be logged, cemented and cased prior to testing. CBM testing was successfully initiated at well LHG 08-01 where a micro-pilot test, which produced water and CBM from the coal seam, was previously completed on a 30 metres (99 feet) open-hole section of the J2X. The 2010 test will open an additional 18 metres (60 feet) of J2X coal which was behind casing in the well. The test has been started and engineers are onsite to monitor the work and optimize the test procedures. The management estimates the indicative costs for the 2010 Program, which is expected to take place in the next 12 to 18 months, to amount to approximately HK\$42.7 million.

Once the results of the pilot production are available, which are expected to be in the first half of 2011, we will start finalising off-take arrangements with local gas suppliers and/or owners of the national pipelines. Taking into account that (i) CBM, which is an unconventional gas, has priority access to the national gas pipelines over other natural gases; and (ii) there has been a continuous supply shortage of natural gas nationally and in the region where TWE's project is situated, the management do not foresee any major obstacles in obtaining off-take arrangements when the gas is commercially producing.

We also expect to initiate the regulatory approval process of the development plan once preliminary CBM transportation and sales arrangement are in place, which is expected to be in the second half of 2011.

Our Company's plan is to follow the pilot CBM production with the development of a 30-well CBM production project beginning in the first quarter of 2012. The project would represent the initial stage of a larger commercial development but is nonetheless a viable project on a standalone basis and represents a legitimate first step to commercialization on the path to full development.

The Scoping Study below outlines the capital and operating costs for CBM production wells plus associated surface facilities to compress CBM and deliver it to the PSC boundary which represents the Urumqi city gate for natural gas and/or the inter-provincial natural gas pipeline operated by PetroChina. The resource basis for the Scoping Study is the best estimate of discovered GIIP within the resource evaluation area of approximately 30 sq km and is adjusted by a 46.3% recovery factor both of which are as substantiated in the opinion of Source Rock Engineering.

Reserves and production schedule

According to the Competent Person's Report, the best estimate of gas in place for the evaluation area was approximately 147 bcf, with contingent resources amounting to approximately 68 bcf. On the basis of gross production rate of 350 mcf per day per well, the net sales volume in each year commencing from 2012 is estimated by the management as follows:

| Year | Sales volume (bcf) | Year | Sales volume (bcf) |
|------|-----------------------|------|-----------------------|
| 2012 | 1.15 | 2022 | 2.10 |
| 2013 | 4.25 | 2023 | 1.94 |
| 2014 | 3.93 | 2024 | 1.79 |
| 2015 | 3.63 | 2025 | 1.66 |
| 2016 | 3.36 | 2026 | 1.53 |
| 2017 | 3.11 | 2027 | 1.42 |
| 2018 | 2.87 | 2028 | 1.31 |
| 2019 | 2.66 | 2029 | 1.21 |
| 2020 | 2.46 | 2030 | 1.12 |
| 2021 | 2.27 | 2031 | 1.04 |

Regulatory approval of a development plan will be sought after at least preliminary CBM transportation and sales arrangements are in place, which will entail negotiations with relevant third parties, the timing of the conclusion of which will be beyond our direct control. As for when the regulatory approval will be obtained, it is a matter of procedure the timing of which is also beyond our control.

Unit selling price

The management has made reference to the recent wellhead natural gas prices announced by the National Development and Reform Commission of the PRC in estimating the unit selling price for the CBM. Starting from 2012 and until the end of the PSC term, CBM price is forecasted to increase at the expected inflation rate of 3%.

CBM price forecast for the production years commencing from 2012 is presented in the table below:

| Year | CBM price (US\$/ mcf) | Year | CBM price (US\$/ mcf) |
|------|--------------------------|------|--------------------------|
| 2012 | 6.0 | 2022 | 8.1 |
| 2013 | 6.2 | 2023 | 8.3 |
| 2014 | 6.4 | 2024 | 8.6 |
| 2015 | 6.6 | 2025 | 8.8 |
| 2016 | 6.8 | 2026 | 9.1 |
| 2017 | 7.0 | 2027 | 9.3 |
| 2018 | 7.2 | 2028 | 9.6 |
| 2019 | 7.4 | 2029 | 9.9 |
| 2020 | 7.6 | 2030 | 10.2 |
| 2021 | 7.8 | 2031 | 10.5 |

Production costs and facilities costs

Cost of revenue refers to the cost of well drilling, well testing, pumping and maintenance of the facilities and field infrastructure. The management estimates that production capital costs amount to approximately US\$450,000 per well.

The Liuhuanggou CBM Project lands are located adjacent to Urumqi, the capital city of Xinjiang, China. The area is served by existing gas pipeline infrastructure including the Wu-Shan pipeline which links Urumqi to the 1st West-East pipeline and the 2nd West-East (“WE2”) pipeline which runs from the western boundary of Xinjiang to Guangdong in southeast China. WE2 runs across the Liuhuanggou CBM Project lands. The management therefore estimates that facilities capital costs or, among other things, building a connecting pipe to the national pipelines and/or collecting stations of local gas suppliers to amount to approximately US\$200,000 per well.

Operating, processing and transportation costs

Operating, processing and transportation costs include general administration expenses, gas gathering costs and other miscellaneous costs such as electricity consumption to extract the gas from the well and transport to the pipeline. The management estimates that these costs amount to approximately US\$1.0 per mcf, and increase at a rate of 3% from 2012 throughout the remainder of the PSC term.

Royalty

Since production is not expected to exceed 500,000 million cubic metres per year, no royalty is effectively payable under the PSC.

Discount rate

The discount rate of 10.14% used for the Scoping Study was developed through the application of the capital asset pricing model, which is the most commonly adopted method of estimating the cost of equity. The model has taken into account of the risk-free rate of return plus a linear function of a measure of systematic risk of times equity market premium in general.

Scoping Study results

Based on the Scoping Study results, the management estimates that the project net present value for this resource evaluation area amounts to approximately US\$56.0 million, and project internal rate of return amounts to approximately 37%, respectively. Our Directors therefore consider that this project is economical according to industry standards, and demonstrates a clear path to commercial production.

As of the Latest Practicable Date, our Group did not have any debt. Taking into account the potential return of the project as mentioned above and the various options of debt and equity funding available in the market, our Directors believe that our Group would be able to obtain sufficient funding to finance the relevant expenditures, if and when required. Given our track record of previous placements in 2007 and 2010, we can explore the option of equity funding. In addition, taking into account the nature of TWE’s project, once the production of gas is commenced and revenue is generated, we believe that we will be in a very good position to consider project financing.

However, our Directors would like to highlight that the recoverable resources mentioned herein may not ultimately be extracted at a profit.

Set out below is a summary of certain provisions of our Memorandum and Articles and of certain aspects of the Companies Law.

We were incorporated in the Cayman Islands as an exempted company with limited liability on 3 July, 2002 under the Companies Law. Our Memorandum and Articles comprise our constitution.

I. MEMORANDUM

- (a) Our Memorandum provides that our Company's objects are unrestricted. The objects of our Company are set out in Clause 3 of our Memorandum which includes acting and performing all the functions of a holding company and as an investment company. Our Memorandum further provides that we shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided by Section 27(2) of the Companies Law. As an exempted company, we will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of our business carried on outside the Cayman Islands.
- (b) We may by special resolution alter our Memorandum with respect to any objects, powers or other matters specified therein.

II. ARTICLES

The following is a summary of certain provisions of our Articles.

(a) Directors

(i) Power to allot and issue Shares

Without prejudice to any special rights or restrictions for the time being attaching to any Shares or any class of Shares, any Share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as we may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as our Directors may determine) and any preference Shares may, subject to the Companies Law, be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at our option or, at the option of the holder.

Our Directors may issue warrants to subscribe for any class of Shares or securities of our Company on such terms as they may from time to time determine. All unissued Shares and other securities of our Company shall be at the disposal of our Directors and they may offer, allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on

such terms (subject to our Articles) as they in their absolute discretion think fit, but so that no Shares shall be issued at a discount

(ii) Power to dispose of the assets of our Company or any subsidiary

There are no specific provisions in our Articles relating to the disposal of the assets of our Company or any of our subsidiaries although our Directors may exercise all powers and do all acts and things which may be exercised or done or approved by us and which are not required by our Articles or relevant statutes of the Cayman Islands to be exercised or done by us in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which our Director is contractually entitled) must be approved by us in general meeting.

(iv) Loans and the giving of security for loans to Directors

Where our Shares remain listed on the Stock Exchange or on a stock exchange in such other territory as our Directors may from time to time decide, we may not make, without the approval of, or ratification by, us in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his Associates, provided that our Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any of our business, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80% of the fair market value of such residence nor 5% of our consolidated net asset value as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which we have an equity interest, and the amount of such loan, or the liability assumed by us under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) Financial assistance to purchase Shares of our Company or our holdings company

There are no provisions in our Articles relating to the giving by our Company of financial assistance for the purchase, subscription or other acquisition of Shares of our Company or of our holding company. The law on this area is summarised in paragraph III(c) below.

(vi) Disclosure of interests in contracts with our Company or any of our subsidiaries

A Director may hold any other office or place of profit with us (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as our Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as our Directors may determine. A Director may act by himself or his firm in a professional capacity for us (otherwise than as auditors) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by us or any other company in which we may be interested, and shall not be liable to account to us or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. Our Directors may also cause the voting power conferred by our Shares in any other company held or owned by us to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing our Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to our Directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of our Directors concerning his own appointment as the holder of any office or place of profit with us or any other company in which we are interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of our Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with us, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to us or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with us must declare the nature of his interest at the meeting of our Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of our Directors after he knows that he is or has become so interested.

Save as otherwise provided by our Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of our Directors in respect of any contract or arrangement in which he or any of his Associates is materially interested, but this prohibition will not apply to any of the following matters, namely:

- (1) any contract or arrangement for the giving to such Director or his Associate(s) any security or indemnity in respect of money lent by him or any of his Associates or obligations incurred or undertaken by him or any of his Associates at the request of or for the benefit of our Company or any of our subsidiaries;
- (2) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of our subsidiaries for which our Director or his Associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (3) any contract or arrangement concerning an offer of Shares or debentures or other securities of or by us or any other company which we may promote or be interested in for subscription or purchase, where our Director or his Associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (4) any contract or arrangement in which our Directors or his Associate(s) is/are interested in the same manner as other holders of Shares or debentures or other securities of us by virtue only of his/their interest in Shares or debentures or other securities of us;
- (5) any contract or arrangement concerning any other company in which our Directors or his Associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which our Directors and/or his Associate(s) is/are not in aggregate beneficially interested in five% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his Associates is derived); or
- (6) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his Associates and employees of our Company or of any of our subsidiaries and does not provide in respect of any Director, or his Associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

Our Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by us in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst our Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in us except in the case of sums paid in respect of Directors' fees. Our Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on our business or in the discharge of their duties as Directors.

Our Directors may grant special remuneration to any Director who performs any special or extra services to or at our request. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of our Company may be fixed from time to time by our Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as our Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

Our Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of our Company, or of any company which is our subsidiary, or is allied or associated with our Company or with any such subsidiary company, or who are or were at any time directors or officers of our Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in our Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Our Directors may also establish

and subsidise or subscribe to any institutions, associations, clubs or funds calculated to be for the benefit of or to advance the interests and well-being of our Company or of any such other company as aforesaid or of any such persons as aforesaid, and may make payments for or towards the insurance of any such persons as aforesaid, and subscribe or guarantee money for charitable or benevolent objects or for any exhibition or for any public, general or useful object. Our Directors may do any of the matters aforesaid, either alone or in conjunction with any such other company as aforesaid. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting one-third of our Directors for the time being or, if their number is not three or a multiple of three, then the number nearest to but not less than one third shall retire from office by rotation provided that every Director, including those appointed for a specific term or holding office as chairman or deputy chairman under our Articles or the office of Managing Director or Joint Managing Director under our Articles, shall be taken into account in determining the number of Directors to retire and subject to retirement by rotation at least once every three years or such other period as the Stock Exchange may from time to time prescribe. A retiring Director shall be eligible for re-election. We at the general meeting at which a Director retires may fill the vacated office. Our Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. A Director is not required to retire upon reaching any particular age.

The number of Directors shall not be fewer than one. A Director (including a Managing Director or other Executive Director) may be removed by an ordinary resolution of our Company before the expiration of his period of office notwithstanding anything in our Articles or in any agreement between us and such Director (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and us). Our Directors have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by our Shareholders in general meeting. Any Director so appointed shall hold office only until the next following general meeting of the company (in the case of filling a casual vacancy) or until our next following annual general meeting (in the case of an addition to our Board), and shall then be eligible for re-election at the meeting, but he shall not be taken into account in

determining our Directors or the number of Directors who are to retire by rotation in case he retires at an annual general meeting.

Our Directors may from time to time entrust to and confer upon our chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director all or any of their powers that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as our Directors may from time to time make and impose. Subject to our Articles, the powers may at any time be withdrawn, revoked or varied. Our Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by our Directors.

(ix) Borrowing powers

Subject to the provisions of the Companies Law, our Directors may from time to time at their discretion exercise all our powers to raise or borrow or to secure the payment of any sum or sums of money for our purposes and to mortgage or charge our undertaking, property and uncalled capital or any part thereof. Our Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of our debentures, debenture stock, bonds or other securities, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: The provisions summarised above, in common with our Articles in general, may be varied with the sanction of a special resolution of our Company.

(x) Qualification Shares

Our Directors are not required under our Articles to hold any qualification Shares.

(xi) Indemnity to Directors

Our Articles contain provisions that provide indemnity to, among other persons, our Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

Our Memorandum may be altered by us in general meeting. Our Articles may also be altered by us in general meeting. As more fully described in paragraph III below, our Articles provide that, subject to certain exceptions, a special resolution is required to alter our Memorandum, to approve any alteration to our Articles and to change our name.

(c) Alterations of capital

We may from time to time by ordinary resolution:

- (i) increase our share capital;
- (ii) consolidate or divide all or any of our share capital into shares of larger or smaller amount than its existing Shares; on any consolidation of fully paid Shares into shares of larger amount, our Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of our Shares to be consolidated, determine which particular Shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by our Directors for that purpose and the person so appointed may transfer our Shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to us for our benefit;
- (iii) divide our Shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) sub-divide our Shares or any of them into shares of smaller amount than is fixed by our Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Share is sub-divided may determine that, as between the holders of our Shares resulting from such sub-division, one or more of our Shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new Shares;

- (v) cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of our share capital by the amount of our Shares so cancelled;
- (vi) make provision for the issue and allotment of Shares which do not carry any voting rights;
- (vii) change the currency of denomination of our share capital;
- (viii) apply the share premium account in any manner permitted by the Companies Law. We shall at all times comply with the provisions of the Companies Law in relation to our shares premium account.

We may by special resolution reduce our issued share capital, or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law.

(d) Variation of rights of existing Shares or classes of Shares

If at any time the capital is divided into different classes of Shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of our Shares of that class. To every such separate general meeting the provisions of our Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph II(s) below.

(e) Special resolutions – majority required

For so long as any part of our issued capital remains listed on the Stock Exchange, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which not less than 21 days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of our issued capital is listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of our Shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given.

(f) Voting rights and right to demand a poll

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares, at any general meeting on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every Share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a Share in advance of calls or instalments is treated for the foregoing purposes as paid on the Share). On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way. Notwithstanding anything contained in our Articles, where more than one proxy is appointed by a Shareholder which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by (i) the Chairman of the meeting; or (ii) by at least three members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) for the time being entitled to vote at the meeting; or (iii) by any member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or (iv) by a member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and holding Shares in our Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all our Shares conferring that right; or (v) if required by the rules of the Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at such meeting.

Where a Shareholder is a clearing house (as defined in our Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any of our meeting or at any meeting of any class of Shareholders provided that the authorisation shall specify the number and class of Shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of our Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of our Shares held by the clearing house (or its nominee) in respect of the number and class of Shares specified in the relevant authorisation including the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

For so long any part of our issued capital remains listed on the Stock Exchange, we shall in each year hold a general meeting as our annual general meeting in addition to any other meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as may be permitted by the rules of the stock exchange on which any of our securities are listed with our permission) shall elapse between the date of one annual general meeting of our Company and that of the next.

(h) Accounts and audit

Our Directors shall cause true accounts to be kept of the sums of money received and expended by us, and the matters in respect of which such receipts and expenditure take place, and of our property, assets, credits and liabilities and of all other matters required by law or are necessary to give a true and fair view of the state of our affairs and to show and explain our transactions.

The books of accounts are to be kept at our principal office or at such other place as our Directors think fit and shall always be open to the inspection of our Directors. No member (not being a Director) or other person has any right to inspect any of our account or book or document except as conferred by law or ordered by a court of competent jurisdiction or authorised by our Directors or by us in general meeting.

Our Directors shall from time to time cause to be prepared and laid before us at our annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any of our Shares are listed on the Stock Exchange, our accounts shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Accounting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of us shall be signed on behalf of our Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before us at our annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, us and every other person entitled to receive notices of our general meetings under the Companies Law or of our Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from our annual financial statements and the Directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person

who is otherwise entitled to our annual financial statements and the Directors' report thereon may, if he so requires by notice in writing served on us, demand that we send to him, in addition to a summary financial statement, a complete printed copy of our annual financial statement and the Directors' report thereon. If all or any of our Shares or debentures are for the time being (with our consent) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with our Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on our authority at each annual general meeting, but in respect of any particular year, we in general meeting may delegate the fixing of such remuneration to our Directors.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and a meeting called for the passing of a special resolution shall be called by at least 21 days' notice in writing, and a meeting of our Company other than an annual general meeting or a meeting for the passing of a Special Resolution shall be called by at least 14 days' notice in writing (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the place, the day and the hour of meeting and, in the case of special business, the general nature of that business.

(j) Transfer of Shares

All transfers of Shares must be effected by transfer in writing in the usual or common form or in any other form acceptable to our Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as our Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of our Share until the name of the transferee is entered in the register of members in respect thereof, provided that our Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a Share, and may accept mechanically executed transfers in any case.

Our Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any Share upon the principal register to any branch register or any Share on any branch register to the principal register or any other branch register.

Unless our Directors otherwise agree, no Shares on the principal register shall be transferred to any branch register nor shall Shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of Shares on a branch register, at the relevant registration office and, in the case of Shares on the principal register, at the transfer office for that register.

Our Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any Shares (not being fully paid Shares) to a person of whom they do not approve and they may refuse to register the transfer of any Shares (not being fully paid Shares) on which we have a lien. Our Directors may also refuse to register a transfer of Shares (whether fully paid or not) in favour of more than four persons jointly or any Share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If our Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with us send to the transferor and transferee notice of the refusal and (if our Shares concerned are fully paid Shares) the reasons(s) for such refusal.

Our Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of Share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong or by any electronic means in such manner as may be accepted by the Stock Exchange, at such times and for such periods as our Directors may from time to time determine and either generally or in respect of any class of Shares, provided that the register shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Our Power to purchase our own Shares

Our Articles provide that our power to purchase or otherwise acquire our Shares is exercisable by our Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law and provided that, in respect of a purchase of redeemable Shares, (i) the price per Share for purchases proposed to be made otherwise than by tender in the manner prescribed in (ii) below or on or through a stock exchange on which such Shares are listed with our consent shall not exceed 100% of the average closing prices for dealings in one or more board lots of such Shares on the principal stock exchange on which our Shares are traded for the five trading days immediately before the date on which the

purchase is made (whether conditionally or otherwise); and (iii) where any such purchase is proposed to be made by tender, tenders shall be made available to all holders of such Shares on the same terms.

(l) Power of any subsidiary to own securities in our Company and financial assistance to purchase Shares of our Company

There are no provisions in our Articles relating to ownership of securities in our Company by a subsidiary or that prohibit the giving of financial assistance to purchase Shares of our Company.

(m) Dividends and other methods of distribution

We in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by our Directors. No dividend shall be declared or paid otherwise than in accordance with the Companies Law.

Unless and to the extent that the rights attached to any Shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on our Shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a Share in advance of calls will for this purpose be treated as paid on our Shares. Our Directors may retain any dividends or other moneys payable on or in respect of a Share upon which we have a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. Our Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to us on account of calls, instalments or otherwise.

Whenever our Directors or us in general meeting have resolved that a dividend be paid or declared on our share capital, our Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid in lieu of the whole or such part of the dividend as our Directors may think fit.

We may also upon the recommendation of our Directors by an ordinary resolution resolve in respect of any of our particular dividend that it may be satisfied wholly in the form of an allotment of Shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever our Directors or us in general meeting have resolved that a dividend be paid or declared our Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by our Directors for our benefit until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared or remitted may be forfeited by our Directors and, upon such forfeiture, shall revert to us and, in the case where any of the same are securities in us, may be re-allotted or re-issued for such consideration as our Directors think fit.

(n) Proxies

Any of our member entitled to attend and vote at our meeting or a meeting of the holders of any class of Shares is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more Shares may appoint more than one proxy to represent him to vote on his behalf at our general meeting or at a class meeting. At any general meeting where voting is by a show of hands or by poll, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be our members.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(o) Corporate representatives

Our corporate member entitled to attend and vote at our meeting is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a show of hands and on a poll on any resolution put at such meeting.

No appointment of a corporate representative shall be valid unless it names the person authorised to act as the appointor's representative and the appointor is also named. Our Directors may decline such person's admission to the relevant meeting and/or reject his vote or demand for a poll unless they are satisfied that a person purporting to act as a corporate representative is the person named in the relevant instrument for his appointment, and no Shareholder who may be affected by any exercise by our Directors of their power in this connection shall have any claim against our Directors or any of them nor may any such exercise by our Directors of their powers invalidate the proceedings of the meeting in respect of which they were exercised or any resolution passed or defeated at such meeting.

(p) Calls on Shares and forfeiture of Shares

Our Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on our Shares held by them respectively (whether on account of the nominal value of our Shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. The joint holders of a Share shall be severally as well as jointly liable for the payment of all calls and instalments due in respect of such Share or other moneys due in respect thereof. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as our Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but our Directors may waive payment of such interest wholly or in part. Our Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any Shares held by him, and in respect of all or any of the monies so advanced we may pay interest at such rate (if any) not exceeding 20% per annum as our Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, our Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, our Shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any Share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of our Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited Share and not actually paid before the forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares but shall, notwithstanding, remain liable to pay to us all moneys which, at the date of forfeiture, were payable by him to us in respect of our Shares together with (if our Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as our Board may prescribe.

(q) Inspection of register of members

For so long as any part of our share capital is listed on the Stock Exchange, any member may inspect our principal or branch register maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if we were incorporated under and is subject to the Companies Ordinance.

(r) Inspection of register of Directors

The Companies Law provide that we are required to maintain at our registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers. There are no provisions in our Articles relating to the inspection of the register of our Directors and Officers, since the register is not open to inspection.

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued Shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of Shares held by them) and that any holder of Shares of the class present in person or by proxy may demand a poll.

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in our Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to our members under the Companies Law as summarised in paragraph III(f) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of our Company must be passed by way of a special resolution.

If we shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on our Shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so

that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on our Shares held by them respectively, all subject to the rights of any Shares issued on special terms and conditions.

If we shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of our assets and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any Shares or other assets upon which there is a liability.

(v) Untraceable members

We may sell our Shares of any member if: (i) dividends or other distributions have been declared by us on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such Shares; (ii) we have published an advertisement of our intention to sell such Shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which our ordinary share capital is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) we have not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such Shares or of a person entitled to such Shares by death, bankruptcy or operations of law; and (iv) we have notified the stock exchange on which our ordinary share capital is listed of our intention to sell such Shares. The net proceeds of any such sale will belong to us and upon our receipt of such net proceeds, we will become indebted to the former holder of such Shares for an amount equal to the amount of such net proceeds.

(w) Stock

We may by ordinary resolution convert any fully paid Shares into stock, and may from time to time by like resolution reconvert any stock into fully paid Shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which our Shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but our Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such

minimum shall not exceed the nominal amount of our Shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held our Shares from which the stock arose, but no such of our privilege shall be conferred by an amount of stock which would not, if existing in Shares, have conferred such privilege or advantage. All such of the provisions of our Articles as are applicable to paid up Shares shall apply to stock, and the words "share" and "shareholder" therein shall include "stock" and "stockholder".

(x) Other provisions

Our Articles provide that, to the extent that it is not prohibited by and is in compliance with Cayman Islands law, if any rights attaching to any warrants which we may issue after the date of this circular shall remain exercisable and we do any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

III. THE COMPANIES LAW

We are incorporated in the Cayman Islands subject to the Companies Law and, therefore, operate subject to Cayman law. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, our operations must be conducted mainly outside the Cayman Islands. We are required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its

memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Cayman Court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Our Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, we may give financial assistance to Directors and employees of our Company, our subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, we may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, our subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph II(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in

control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Cayman Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Cayman Court shall direct.

Any shareholder of a company may petition the Cayman Court which may make a winding up order if the Cayman Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by its shareholder petitioner or to do an act which its shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by its shareholder petitioner on such terms as the Cayman Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to us or our operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of our Shares, debentures or other obligations.

Our undertaking is for a period of twenty years from 16 July, 2002.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Our members will have no general right under the Companies Law to inspect or obtain copies of our register of members or corporate records. They will, however, have such rights as may be set out in our Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Cayman Court voluntarily; or, under supervision of the Cayman Court. The Cayman Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Cayman Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Cayman Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Cayman Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Cayman Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Cayman Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within 28 days of the commencement of the liquidation, failing which, its liquidator must apply to Cayman Court for an order that the liquidation continue under the supervision of the Cayman Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least 21 days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Cayman Court. Whilst a dissenting shareholder would have the right to express to the Cayman Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Cayman Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer.

A dissenting shareholder may apply to the Cayman Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Cayman Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

IV. GENERAL

Any person wishing to have a detailed summary of the Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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| APPENDIX IX | SUMMARY OF THE SHARE OPTION SCHEMES OF OUR GROUP |
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The relevant requirements under Chapter 17 of the Listing Rules shall, mutatis mutandis, apply to our Share Option Scheme and the TWE Scheme.

I. SHARE OPTION SCHEME

The following is a summary of the principal terms of our Share Option Scheme conditionally adopted by our Shareholders by way of written resolution passed on 25 January 2003. Our Share Option Scheme will not be terminated at or before the Transfer.

The purpose of our Share Option Scheme is to enable us to recognise the contributions of the Participants to our Group and to motivate the Participants to continuously work to the benefit of our Group by offering to the Participants an opportunity to have personal interest in our share capital.

1. WHO MAY JOIN

- (a) Our Board may, at its discretion, offer any Participant Options to subscribe for such number of new Shares at any exercise price determined in accordance with paragraph 2 below.
- (b) For the purpose of this section, unless the context otherwise requires, "**Grantee**" means any Participant who has been offered and accepted an option ("**Options**") in accordance with the terms of our Share Option Scheme; and "**Participant**" means any employee and other consultants and/or advisors who in the sole discretion of our Board have contributed to our Group.

2. PRICE OF SHARES

The subscription price for Share(s) under our Share Option Scheme will be a price as our Board in its absolute discretion shall determine and notify to each Participant and will be the highest of (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the Option (which must be a business day), (ii) the average closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the Option and (iii) the nominal value of a Share on the date of grant of the Option. The date of grant is the date on which the Option is offered.

3. PAYMENT ON ACCEPTANCE OF OPTION OFFER

Upon acceptance of the Option, the Grantee shall pay HK\$1.00 to us by way of consideration for the grant.

4. MAXIMUM NUMBER OF SHARES

- (a) Subject to sub-paragraphs (b), (c) and (d) below, the overall limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under our Share Option Scheme and other share option schemes of our Group must not exceed 30% of our Shares in issue from time to time.
- (b) Our Shares which are the subject of Options that may be granted immediately after the listing of our Shares on GEM must not exceed 10% of our Shares in issue on the Listing Date ("**Scheme Mandate Limit**"), unless approval of our Shareholders has been obtained pursuant to sub-paragraph (c) and (d) below. Options lapsed in accordance with the terms of our Share Option Scheme and any other share option schemes of our Group will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (c) Subject to sub-paragraph (a) above, we may renew the Scheme Mandate Limit at any time subject to prior Shareholders' approval. However, the Scheme Mandate Limit as renewed must not exceed 10% of our Shares in issue as of the date of the aforesaid Shareholders' approval. Options previously granted under our Share Option Scheme and other share option schemes of our Group (including those outstanding, cancelled, lapsed in accordance with the schemes or exercised Options) will not be counted for the purpose of calculating the limit as renewed. A circular containing such information required under the GEM Listing Rules must be sent to Shareholders in connection with the meeting at which their approval will be sought.
- (d) Subject to sub-paragraph (a) above, we may also seek separate Shareholders' approval for granting Options beyond the Scheme Mandate Limit to Participants specifically identified by us before the aforesaid Shareholders' meeting where such approval is sought. A circular must be sent to Shareholders containing a generic description of the identified Participants, the number and terms of the Options to be granted, the purpose of granting Options to the identified Participants with explanation as to how these Options serve such purpose and such other information required under the GEM Listing Rules.
- (e) The total number of Shares issued and to be issued upon exercise of the Options granted and to be granted to each Participant or Grantee (as the case may be) (including both exercised and outstanding Options) in any 12-month period up to and including the date of grant must not exceed 1% of our Shares in issue at the date of grant ("**Individual Limit**"). Any further grant of Options in excess of the Individual Limit must be subject to Shareholders' approval with such Participant or Grantee (as

the case may be) and his Associates abstaining from voting. A circular must be sent to our Shareholders disclosing the identity of the Participant or Grantee (as the case may be), the number and terms of the Options granted and to be granted and such other information required under the GEM Listing Rules. The number and terms of Options to be granted to such Participants or Grantee, as the case may be, must be fixed before Shareholders' approval is sought and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

5. RESTRICTIONS ON GRANT OF OPTION

- (a) An offer may not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules. In particular, during the period of one month immediately preceding the earlier of (i) the date of the meeting of our Board (as such date is first notified to the Stock Exchange in accordance with Rule 17.48 of the GEM Listing Rules) for the approval of our annual, half-year or quarter-year results; and (ii) the deadline for us to publish our annual, half-year or quarter-year results announcements under Rules 18.49 or 18.53 of the GEM Listing Rules, no Option should be granted until such results has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules.
- (b) any grant of Options to a connected person of our Company or its Associates (as such terms are defined in the GEM Listing Rules) requires the approval of independent non-executive Directors (excluding an independent non-executive Director who is a proposed Grantee of the Options).

Where any grant of Options to a substantial Shareholder or an independent non-executive Director or their respective Associates will result in our Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to the date of grant to such person exceed of 0.1% of our Shares in issue and an aggregate value, based on the closing price of our Shares at the date of each grant, of HK\$5 million, such proposed grant of Options must be subject to Shareholders' prior approval at a general meeting taken on a poll. All connected persons must abstain from voting, except that any connected person may vote against the resolution provided that its intention to do so has been stated in the circular dispatched to our Shareholders for convening such general meeting seeking their approval;

- (c) Shareholder's approval as described above is also required for any change in the terms of Options granted to a Participant who is a substantial Shareholder, an independent non-executive Director or their respective Associates;
- (d) The above-mentioned circular must contain the particulars as required by the GEM Listing Rules from time to time, including:
 - (i) details of the number and terms of the Options (including the subscription price) to be granted to each such connected person or its Associates (which must be fixed before the date of Shareholders' approval) and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;
 - (ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is a proposed Participant) as to voting; and
 - (iii) information relating to any Directors who are trustees of our Share Option Scheme or have a direct or indirect interest in the trustees.

The requirements for the granting of Options to any of our Directors or chief executive set out above shall not apply where the Participant is only a proposed director or chief executive of us.

6. TIME OF EXERCISE OF OPTION

- (a) An Option may be exercised in accordance with the terms of our Share Option Scheme at any time during the period ("**Option Period**") to be determined and notified by our Board to each Grantee which period of time shall commence on the expiration of three years after the date of grant of the Option and expire on such date as determined by our Board provided that the Option may not be exercised after the expiration of 10 years from the date of grant of the Option.
- (b) Our Share Option Scheme does not require a minimum period for which an Option must be held nor a performance target which must be achieved before an Option can be exercised, unless our Board otherwise determined and stated in the offer of the grant of Options to the Grantee.

7. RIGHTS ARE PERSONAL TO GRANTEE

An Option shall not be transferable or assignable and is personal to the Grantee.

8. RIGHTS ON CESSATION OF EMPLOYMENT BY DEATH

If the Grantee who is an employee ceases to be an employee of our Group by reason of death and none of the events referred to in sub-paragraph 9 below as a ground for termination of his or her employment by our Group arises, his or her personal representative(s) may exercise the Option in full (to the extent not already exercised) within a period of 12 months from the date of death, failing which the Option will lapse.

9. RIGHTS ON CESSATION OF EMPLOYMENT BY DISMISSAL

If the Grantee who is an employee ceases to be an employee of our Group on the grounds of summary dismissal or that he has been guilty of serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his Option will lapse and not be exercisable on the date of termination of his employment.

10. RIGHTS ON CESSATION OF EMPLOYMENT FOR OTHER REASONS

If the Grantee who is an employee leaves the services or ceases to be a Director for any reason other than an event referred to in sub-paragraphs 8 and 9 above as a ground for termination, his or her Option may be exercised (to the extent not already exercised) at any time within 3 months following the date of cessation which date shall be the last actual working date with us or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which the Option will lapse.

11. EFFECTS OF ALTERATIONS TO SHARE CAPITAL

In the event of any alteration in our capital structure whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision, or reduction of our share capital or otherwise whilst any Option remains exercisable such corresponding alterations (if any) shall be made in the aggregate number of Shares in respect of which Options may be granted subject to outstanding Options so far as unexercised and/or the subscription price per Share of each outstanding Option or the method of exercise of the Option as our independent financial advisor or our auditors shall certify in writing to our Board to be in their opinion as fair and reasonable (except in the case of a capitalisation issue where no such certification is required). Any such alterations will be made on the basis that the aggregate subscription price payable on the full exercise of any Option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value or which would increase the proportion of our issued share capital for which any grantee of an Option is entitled to subscribe

pursuant to the Options held by him before such alteration. The issue of securities as consideration in a transaction is not to be regarded as circumstances requiring any such alteration.

12. RIGHTS ON A GENERAL OFFER

In the event of a general offer being made to all holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant Option, the Grantee (or his or her legal personal representative(s)) shall be entitled to exercise the Option (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional to its full extent or to the extent specified in such notice.

13. RIGHTS ON WINDING UP

In the event a notice is given by us to our Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, we shall forthwith give notice thereof to the Grantee and the Grantee (or his or her legal personal representatives) may by notice in writing to us (such notice to be received by us not later than four business days prior to the proposed Shareholders' meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and we shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise.

14. RIGHT ON COMPROMISE OR ARRANGEMENT

In the event of a compromise or arrangement between us and our members or creditors being proposed in connection with the scheme for the reconstruction or amalgamation of us, we shall give notice thereof to all Grantees on the same date as we give notice of the meeting to our members or creditors to consider such a scheme or arrangement and the Grantee (or his or her personal representative(s)) may by notice in writing to us accompanied by the remittance for the exercise price in respect of the relevant Option (such notice to be received by us not later than two business days prior to the proposed meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice, and we shall as soon as possible and in any event no later than the date immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise credited as fully paid and register the Grantee as holder thereof.

15. RANKING OF SHARE

Shares allotted and issued on the exercise of Options will rank pari passu with the other fully-paid Shares in issue on the date of issue, save that they will not be entitled to participate in any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of issue.

Our Shares issued on exercise of the Options will on issue be identical to the then existing issued Shares of our Company.

16. ALTERATIONS TO SHARE OPTION SCHEME

Our Share Option Scheme may be altered in any respect by our Board except that the provisions of our Share Option Scheme relating to the matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of the Grantees except with the prior approval of our Shareholders in general meeting with Participants and their respective Associates abstaining from voting. Any alteration to the terms and conditions of our Share Option Scheme or any change to the terms of Options granted under our Share Option scheme which are of a material nature must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of our Share Option Scheme. Any change to the authority of our Board or our scheme administrators in relation to any alteration of the terms of our Share Option Scheme shall be approved by our Shareholders in general meeting. The amended terms of our Share Option Scheme or the Options to be granted thereunder must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules from time to time.

17. TERMINATION OF OUR SHARE OPTION SCHEME

We, by ordinary resolution in general meeting, or our Board, may at any time terminate the operation of our Share Option Scheme and in such event no further Options will be offered or granted but in all other respects the provisions of our Share Option Scheme shall remain in full force and effect. Options which are granted during the life of our Share Option Scheme and remain unexpired immediately prior to the termination of the operation of our Share Option Scheme shall continue to be exercisable in accordance with their terms of issue within one month after the termination of the operation of our Share Option Scheme. Upon such termination, details of the Options granted (including Options exercised or outstanding) under our Share Option Scheme are required under the GEM Listing Rules to be disclosed in the circular to Shareholders seeking approval of the first new scheme established thereafter.

18. CANCELLATION OF OPTIONS GRANTED

Subject to the consent from the relevant Grantee, our Board may in its discretion cancel Options previously granted to, and yet to be exercised by, such Grantee. If such cancellation has been approved by our Shareholders in general meeting and there are sufficient available unissued Options (excluding such cancelled Options) for such re-issuance under the Scheme Mandate Limit, such Options which were cancelled may be re-issued after such cancellation provided that the re-issued Options shall only be granted in compliance with the terms of our Shares Option Scheme.

19. PERIOD OF OUR SHARE OPTION SCHEME

Our Share Option Scheme will remain valid for a period of ten years commencing on 25 January 2003 after which no further Options will be granted but the provisions of our Share Option Scheme shall in all other respects remain in full force and effect and Options which are granted during the life of our Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

20. PERFORMANCE TARGET

Unless our Directors otherwise determined and stated in the offer of the grant of Options, a Grantee is not required to achieve any performance target before any Option granted under our Share Option Scheme can be exercised.

21. LAPSE OF OPTION

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the expiry of the periods referred to in paragraphs 8, 10, 12 or 13 respectively;
- (c) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph 14;
- (d) the date on which a Grantee (being an employee) ceases to be an employee by reason of the termination of his or her employment on grounds of summary dismissal or that he or she has been guilty of serious misconduct or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty;

- (e) the date which is 3 months after the date on which the Grantee ceases to be an Employee of our Group in the case of resignation, retirement, expiry of employment contract or on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the Grantee's service contract with us or our relevant subsidiary;
- (f) the date of the commencement of the winding-up of our Company; or
- (g) the date on which the Grantee sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option or enter into any agreement so to do in breach of our Share Option Scheme.

II. TWE SCHEME

The following is a summary of the principal terms of the TWE Scheme approved by our Shareholders at the annual general meeting of our Company held on 20 April 2009.

1. PURPOSE OF THE TWE SCHEME

The purpose of the TWE Scheme is to enable TWE to grant TWE Options to selected Eligible Persons as incentives or rewards for their contribution or potential contribution to TWE and/or any company which is a subsidiary of, or a company controlled by, TWE (the "Affiliates") to encourage them to work towards enhancing the value of TWE and/or the Affiliates and their respective shares for the benefit of TWE and the TWE Shareholders as a whole.

2. ADMINISTRATION OF THE TWE SCHEME

The TWE Scheme shall be administered by the TWE Board whose decisions shall be final and binding on all persons who may be affected thereby. The TWE Board may delegate some or all of its authority under the TWE Scheme to an individual or individuals who may either be one or more of the members of the TWE Board or one or more of the officers of TWE or its subsidiaries, if any.

As the TWE Board has discretion to determine the terms of the TWE Offer, including without limitation, the TWE Option Period, TWE Subscription Price and performance target of each Eligible Person, the TWE Board believes that the terms of the TWE Scheme will serve the purpose of the TWE Scheme set out above.

3. ELIGIBLE PERSONS

Subject to the terms of the TWE Scheme and for so long as TWE remains a subsidiary of our Company, subject also to the GEM Listing Rules, the TWE Board may, at its absolute discretion (subject to any terms and conditions as it may think fit) during the TWE Scheme Period (i.e. the period commencing on the Effective Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof), make TWE Offers to any Eligible Persons to take up TWE Options. The eligibility of the Eligible Persons is determined by the TWE Board with reference to the Eligible Persons' past and expected commitment and contribution to TWE and/or the Affiliates.

TWE Offers may be accepted by returning a duly signed copy of the TWE Offer document or other instrument in writing to TWE by 5:00 p.m. on the date specified in the TWE Offer as the latest date for acceptance, together with remittance of the TWE Option Price (i.e. C\$1.00 (or foreign currency equivalent)) by way of consideration for the grant thereof.

A TWE Option shall be personal to the TWE Grantee to whom it was granted and shall not be transferable or assignable, and no TWE Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any TWE Option.

4. TWE SUBSCRIPTION PRICE AND TWE OPTION PERIOD

The TWE Subscription Price shall be determined by the TWE Board on a fair and reasonable basis, taking into consideration the prevailing market condition, performance of TWE and after having assessed the efforts, performance and/or future potential contribution of the Eligible Person to the success of the business and operations of TWE (and the Affiliates from time to time), which shall be determined by the TWE Board from time to time or no less than (where applicable) the nominal value of the TWE Share on the TWE Offer Date.

The TWE Subscription Price in respect of any TWE Option granted after our Company has resolved to seek a separate listing of TWE on the Main Board or GEM or an overseas stock exchange and up to the listing date of TWE must be not less than the new issue price (if any) of the TWE Shares on listing. Without prejudice to the foregoing, any TWE Option granted during the period commencing six months before the lodgement of Form 5A (or its equivalent for listing on the Main Board or any overseas exchange) up to the listing date of TWE is subject to the above requirement. The exercise price of any TWE Option granted during such period shall be adjusted to a price not lower than the new issue price as the TWE Board may deem appropriate; or (where applicable) such price as from time to time adjusted pursuant to the TWE Scheme.

The TWE Option Period will be notified by the TWE Board to an Eligible Person in the TWE Offer, which shall not be longer than 10 years from the TWE Offer Date.

5. MAXIMUM NUMBER OF TWE SHARES IN RESPECT OF WHICH TWE OPTIONS MAY BE GRANTED

For so long as TWE remains a subsidiary of our Company:

- (a) The total number of TWE Shares which may be issued upon exercise of all TWE Options to be granted under the TWE Scheme and any other share option schemes of TWE must not in aggregate exceed 10% of the TWE Shares in issue as of the Effective Date (the “Limit”), unless further Shareholders’ approval and approval of the TWE Shareholders have been obtained pursuant to sub-paragraph (b) or (c) below, provided that TWE Options lapsed in accordance with the terms of the TWE Scheme will not be counted for the purpose of calculating the Limit.
- (b) Our Company may, after issuing a circular to our Shareholders in accordance with the GEM Listing Rules, seek approval of Shareholders and TWE Shareholders in general meetings to refresh the Limit provided that the Limit as refreshed shall not exceed 10% of the TWE Shares in issue as of the date of approval from our Shareholders of the refreshed Limit. TWE Options previously granted (including those outstanding, cancelled, lapsed or exercised in accordance with the TWE Scheme and any other share option schemes of TWE) will not be counted for the purpose of calculating the Limit as refreshed.
- (c) Our Company may seek separate Shareholders’ approval and TWE may seek separate approval of the TWE Shareholders in general meetings to grant TWE Options beyond the Limit or the refreshed Limit provided that the TWE Options in excess of the Limit or refreshed Limit are granted only to such Eligible Persons specifically identified by TWE before such approval is sought, and a circular containing a generic description of the specified Eligible Persons, the number and terms of the TWE Options to be granted, the purpose of granting TWE Options to the specified Eligible Persons and how these TWE Options serve such purpose shall be despatched to our Shareholders together with the notice of the relevant general meeting.
- (d) The total number of TWE Shares which may be issued upon exercise of all outstanding TWE Options granted and yet to be exercised under the TWE Scheme and any other share option schemes of TWE shall not in any event exceed 30% of the TWE Shares in issue from time to time.

- (e) Unless approved by our Shareholders and TWE Shareholders in the manner set out in the rest of this paragraph, the total number of TWE Shares issued and to be issued upon the exercise of the TWE Options granted and to be granted to any Eligible Person (including both exercised and outstanding TWE Options) in any 12-month period up to and including the TWE Offer Date shall not exceed 1% of the TWE Shares in issue as of the TWE Offer Date. Where any further grant of TWE Options to an Eligible Person would result in this limit being exceeded, such further grant must be separately approved by our Shareholders and TWE Shareholders in general meetings with such Eligible Person and his Associates abstaining from voting. Our Company must also send a circular to Shareholders disclosing, inter alia, the identity of such Eligible Person, the number and terms of the TWE Options to be granted (and TWE Options previously granted to such Eligible Person). The number and terms (including the exercise price) of TWE Options to be granted must be fixed before Shareholders' approval and TWE Shareholders' approval and the date of the meeting of the TWE Board for proposing such further grant should be taken as the TWE Offer Date for the purpose of calculating the minimum TWE Subscription Price.

6. RESTRICTIONS ON GRANT OF TWE OPTIONS

For so long as TWE remains a subsidiary of our Company:

- (a) A TWE Offer must not be made after a price sensitive development concerning our Group has occurred or a price sensitive matter concerning our Group has been the subject of a decision, until such price sensitive information has been announced in accordance with the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with Rule 17.48 of the GEM Listing Rules) for the approval of any quarterly, interim or annual results of our Company; and (ii) the deadline for our Company to publish any quarterly, interim or annual results announcement under the GEM Listing Rules, and ending on the date of the relevant results announcement of our Company, no TWE Option shall be granted. The period during which no TWE Option may be granted will cover any period of delay in the publication of results announcement.
- (b) Any proposed grant of TWE Options to a director, chief executive, management shareholder or substantial shareholder (as such terms are defined in the GEM Listing Rules) of our Company or any of their respective Associates, must be approved by all independent

non-executive Directors (excluding any independent non-executive Director who is proposed to be a grantee of such TWE Options) of our Company.

- (c) Where any proposed grant of TWE Options to a substantial shareholder (as such term is defined in the GEM Listing Rules) of our Company, or an independent non-executive Director or any of their respective Associates, will result in the total number of TWE Shares issued and to be issued upon exercise of TWE Options granted and to be granted (including TWE Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the TWE Offer Date:
- (i) representing in aggregate over 0.1% of the TWE Shares in issue; and
 - (ii) having an aggregate value, assuming such TWE Options were exercised and based on the adjusted net asset value per TWE Share in accordance with the latest audited accounts of TWE, in excess of HK\$5 million (or its equivalent),

such further grant of TWE Options, and any change in the terms of TWE Options granted, shall be subject to the issue of a circular in compliance with Rule 23.04 of the GEM Listing Rules by our Company to our Shareholders, the approval of TWE in general meeting and the approval of our Company in general meeting at which all connected persons of our Company must abstain from voting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. The date of the meeting of the TWE Board proposing such further grant shall be taken as the TWE Offer Date for the purpose of calculating the minimum TWE Subscription Price.

7. EXERCISE OF TWE OPTIONS

Subject to paragraph 9, TWE Options may be exercised in accordance with the terms of the TWE Scheme at any time during the TWE Option Period provided that the TWE Board may determine the TWE Option Period. The TWE Board has the discretion to fix any minimum period(s) for which a TWE Option or any part thereof has to be held before the exercise of the subscription rights attaching thereto. A TWE Option Holder shall not be treated as a TWE Shareholder until the registration of the TWE Option Holder as the holder of the TWE Shares. TWE Shares allotted upon the exercise of a TWE Option shall rank *pari passu* in all respects with the TWE Shares in issue on the date of the exercise.

Unless otherwise determined by the TWE Board and specified in the TWE Offer at the time of the TWE Offer Date, the TWE Grantee is not required to achieve any performance targets. Notwithstanding the above, a TWE Option may be exercised by the TWE Grantee (or his personal representatives) at any time during the TWE Option Period, subject to paragraph 9.

8. TAKEOVER OFFERS, LIQUIDATION AND RECONSTRUCTION

- (a) If a general offer (other than by way of scheme of arrangement pursuant to sub-paragraph (b) below) is made to all TWE Shareholders or, for so long as TWE remains a subsidiary of our Company, to all Shareholders (other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror), TWE shall forthwith give notice thereof (the "Notice of TWE General Offer") to all TWE Option Holders who may at any time after such offer becomes or is declared unconditional during the TWE Option Period of the relevant TWE Option, be entitled to exercise the TWE Option in full or in part regardless of any vesting period requirements (if any) at any time thereafter and up to the close of such offer (or any revised offer). All outstanding TWE Offers and unexercised TWE Options shall lapse upon the close of such offer (or any revised offer) unless TWE has specified in the Notice of TWE General Offer that all outstanding TWE Offers and unexercised TWE Options shall remain valid notwithstanding the general offer. Any outstanding TWE Offer or unexercised TWE Option surviving such general offer (or revised offer) shall continue to be bound by the terms of the relevant TWE Offer and the TWE Scheme.

- (b) If a general offer by way of scheme of arrangement is made to all TWE Shareholders or, for so long as TWE remains a subsidiary of our Company, to all Shareholders, and has been approved by the necessary number of TWE Shareholders or Shareholders (as the case may be) at the requisite meetings, TWE shall forthwith give notice thereof (the "Notice of Scheme of Arrangement") to all TWE Option Holders who may at any time thereafter and until such time as specified by TWE in such notice exercise their unexercised TWE Options to its full extent regardless of any vesting period requirements (if any) or to the extent notified by TWE. All outstanding TWE Offers and unexercised TWE Options shall lapse upon expiry of the period specified by TWE in the Notice of Scheme of Arrangement unless TWE has specified in such notice that all outstanding TWE Offers and unexercised TWE Options shall remain valid notwithstanding the scheme of arrangement. Any outstanding TWE Offer or unexercised TWE Option surviving such scheme of arrangement shall continue to be bound by the terms of the relevant TWE Offer and the TWE Scheme.

- (c) If notice is duly given by TWE to all TWE Shareholders to convene a general meeting at which a resolution will be proposed to voluntarily wind up TWE, TWE shall give notice thereof to all TWE Option Holders on the same date (containing an extract of this provision) as it despatches such notice to each TWE Shareholder, and thereupon each TWE Option Holder or his personal representative(s) shall be entitled to exercise all or any of his unexercised TWE Options either to its full extent regardless of any vesting period requirements (if any) or to the extent specified in such notice at any time not later than two business days prior to the proposed general meeting of TWE. If the resolution to wind up TWE is duly passed, all TWE Options shall, to the extent that they have not been exercised, thereupon cease and determine and all outstanding TWE Offers shall lapse.

- (d) If under the companies law of TWE's place of incorporation, a compromise or arrangement between TWE and the TWE Shareholders or between TWE and its creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of TWE or its amalgamation with any other company or companies, TWE shall give notice thereof to all TWE Option Holders on the same date as it despatches the notice which is sent to each TWE Shareholder or creditor of TWE summoning the meeting to consider the compromise or arrangement, and thereupon each TWE Option Holder (or where permitted his personal representative(s)) shall be entitled to exercise all or any of his unexercised TWE Options either to its full extent regardless of any vesting period requirements (if any) or to the extent specified in such notice at any time not later than two business days prior to the proposed general meeting of TWE. All outstanding TWE Offers and unexercised TWE Options shall lapse upon the compromise or arrangement becoming effective unless TWE has specified in such notice that all outstanding TWE Offers and unexercised TWE Options shall remain valid notwithstanding the compromise or arrangement. Any outstanding TWE Offer or unexercised TWE Option surviving such compromise or arrangement shall continue to be bound by the terms of the relevant TWE Offer and the TWE Scheme.

9. LAPSE OF TWE OPTIONS

A TWE Option shall lapse (to the extent not already exercised) automatically on the earliest of:

- (a) expiry of the TWE Option Period;

- (b) the date of termination of employment by the TWE Option Holder's employing company for serious misconduct or in accordance with the termination provisions of his contract of employment (otherwise than by reason of redundancy);
- (c) expiry of the 30-day period from the date of voluntary resignation of the TWE Option Holder other than by reason of the circumstances set out in sub-paragraph (d) hereof;
- (d) the date of termination of such other contract or agreement constituting the TWE Option Holder an Eligible Person for his breach of the terms thereof or in accordance with the termination provisions of such contract or agreement by any contracting party;
- (e) expiry of the six-month period following the occurrence of an event which causes the TWE Option Holder to cease to be an Eligible Person, including ill-health, injury, disability, death or retirement (including expiration of term of directorship);
- (f) expiry of the periods referred to in paragraphs 8(a) and 8(b) above;
- (g) the date on which the resolution to voluntarily wind up TWE is passed; and
- (h) save as otherwise provided in the above paragraph 8, the date of the commencement of winding up of TWE.

10. IF EXERCISE OF A TWE OPTION IS UNLAWFUL

If at the time a TWE Option Holder wishes to exercise a TWE Option, the exercise of the TWE Option in respect of the TWE Shares or the consequences of such exercise is not permitted by the applicable laws, the TWE Option shall not entitle the TWE Option Holder to subscribe for the TWE Shares, but shall entitle the TWE Option Holder to receive the amount by which the net proceeds of sale of the TWE Shares, the subject of the TWE Option shall exceed the subscription price for such TWE Shares, the TWE Shares shall be sold in the market by TWE, and the subscription price for such TWE Shares shall be credited to TWE's share capital and capital reserves.

11. CANCELLATION OF TWE OPTIONS

Any TWE Options granted but not exercised may be cancelled by the TWE Board if the TWE Option Holder agrees in writing. Issuance of new TWE Options to the same TWE Option Holder may only be made if there are unissued TWE Options available under the TWE Scheme (excluding the cancelled TWE Options) and in compliance with the terms of the TWE Scheme in force from time to time.

12. VOTING AND DIVIDEND RIGHTS

TWE Shares issued upon the exercise of a TWE Option shall not carry voting rights until such TWE Shares are entered in the register of members of TWE. The TWE Shares to be allotted and issued upon the exercise of a TWE Option will rank pari passu with the fully paid TWE Shares in issue and accordingly will entitle the TWE Option Holder to participate in all dividend or other distributions paid or made on or after the date when such TWE Shares are entered in the register of members of TWE other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date when such TWE Shares are entered in the register of members of TWE, provided always that when the date of exercise of the TWE Option falls on a date upon which the register of members of TWE is closed then the exercise of the TWE Option shall become effective on the first business day in Canada on which the register of members of TWE is re-opened.

13. ALTERATIONS TO CAPITAL

Upon the occurrence of any Relevant Event, the number or (where applicable) nominal amount of TWE Shares comprised in each TWE Option and/or the TWE Subscription Price thereunder and/or the Limit (as refreshed from time to time) may be adjusted in any manner as the TWE Board (having received a confirmation in writing from the auditors for the time being of TWE or an independent financial advisor appointed by the TWE Board, acting as experts and not as arbitrators, that in their opinion the proposed adjustments satisfy the requirements set out in Rule 23.03(13) of the GEM Listing Rules and the note thereto and the Supplementary Guidance for so long as TWE remains a subsidiary of our Company) may deem appropriate provided always that:

- (a) any adjustments should give a TWE Option Holder the same proportion of the share capital of TWE (as interpreted in accordance with the Supplementary Guidance) as that to which he was previously entitled prior to such adjustments;
- (b) no adjustments shall be made which will enable a TWE Share to be issued at less than (where applicable) its nominal value;
- (c) any adjustment so made shall be in compliance with the GEM Listing Rules and such applicable guidance and/or interpretation of the GEM Listing Rules from time to time issued by the Stock Exchange (including, without limitation, the Supplementary Guidance); and
- (d) where the Relevant Event arises from an issue of TWE Shares, references to TWE Options shall include references to TWE Options that have been exercised prior to the date of the adjustment in respect of TWE Shares which otherwise do not rank and are not entitled to participate in the

issue by reason of the TWE Option Holder not having been then registered as the holder of the relevant TWE Shares.

14. ALTERATION OF THE TERMS OF THE TWE SCHEME

No amendments to the TWE Scheme shall be made which would have the effect of abrogating or altering adversely any of the subsisting rights of TWE Option Holders except with any consent on their part as would be required under the provisions of TWE's constitutional documents as if the TWE Options constituted a separate class of share capital and as if the relevant provisions are applied *mutatis mutandis*.

Subject to the above, the TWE Board may from time to time in its absolute discretion waive or amend any of the rules of the TWE Scheme as it deems desirable, provided that, except with the prior sanction of our Company in general meeting:

- (a) no alteration to any of the matters set out in Rule 23.03 of the GEM Listing Rules shall be made to the advantage of TWE Option Holders or Eligible Persons;
- (b) no alteration to the definition of "Eligible Persons"; and
- (c) no alteration to the terms and conditions of the TWE Scheme which are of a material nature or any change to the terms of TWE Options granted may be made, except where the alterations take effect automatically under the existing terms of the TWE Scheme,

provided that for so long as TWE remains a subsidiary of our Company, the amended terms must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.

Any change to the authority of the TWE Board in relation to any alteration to the terms of the TWE Scheme must be approved by the TWE Shareholders and our Shareholders (for so long as TWE remains a subsidiary of our Company) in general meetings.

15. TERMINATION OF THE TWE SCHEME

Subject to earlier termination by TWE by an ordinary resolution of the TWE Shareholders and an ordinary resolution of our Shareholders (so long as TWE remains a subsidiary of our Company) in general meeting, the TWE Scheme shall be valid for the TWE Scheme Period. Upon the termination of the TWE Scheme, no further TWE Offers will be made but TWE Options granted prior to such termination shall continue to be valid and exercisable in accordance with the rules of the TWE Scheme.

I. FURTHER INFORMATION ABOUT OUR GROUP

(a) Incorporation

We were incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 3 July 2002. We have established a place of business in Hong Kong at Unit 806, Level 8, Core D, Cyberport 3, 100 Cyberport Road, Hong Kong and were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 6 February 2003, with Mr. Chan appointed as our Authorised Representative for the acceptance of service of process in Hong Kong.

As we were incorporated in the Cayman Islands, we operate subject to the Companies Law and to our constitution comprising our Memorandum and Articles. A summary of certain provisions of our Memorandum and Articles and relevant aspects of the Companies Law is set out in Appendix VIII to this circular.

(b) Change in share capital

As of the Latest Practicable Date, our authorised share capital was HK\$50,000,000 divided into 20,000,000,000 Shares and our issued share capital was HK\$6,943,647 divided into 2,777,458,800 Shares. The following changes in our share capital have taken place within the year ended 31 December 2009 and the seventeen-month period ended 31 December 2008 preceding the Latest Practicable Date:

| | Number of Shares | | Nominal value (HK\$) | |
|---|---|---|---|---|
| | Year ended 31 December 2009 '000 | Seventeen- month Period ended 31 December 2008 '000 | Year ended 31 December 2009 HK\$'000 | Seventeen- month Period ended 31 December 2008 HK\$'000 |
| Authorised | | | | |
| At the beginning of year/period | | | | |
| Shares of HK\$0.0025 each as of 1 January 2009 and HK\$0.005 each as of 1 August 2007 | 20,000,000 | 10,000,000 | 50,000 | 50,000 |
| Share subdivision (i) | — | 10,000,000 | — | — |
| | <u>20,000,000</u> | <u>20,000,000</u> | <u>50,000</u> | <u>50,000</u> |
| As of end of year/period | | | | |
| Shares of HK\$0.0025 each | <u>20,000,000</u> | <u>20,000,000</u> | <u>50,000</u> | <u>50,000</u> |
| Issued and fully paid | | | | |
| At the beginning of year/period | | | | |
| Shares of HK\$0.0025 each as of 1 January 2009 and HK\$0.005 each as of 1 August 2007 | 2,336,881 | 1,074,546 | 5,842 | 5,373 |
| Issue of new Shares upon exercise of Options on 6 August 2007 | — | 14,152 | — | 70 |
| | <u>2,336,881</u> | <u>1,088,698</u> | <u>5,842</u> | <u>5,443</u> |

| | Number of Shares | | Nominal value (HK\$) | |
|---|---|---|---|---|
| | Year ended 31 December 2009 '000 | Seventeen- month Period ended 31 December 2008 '000 | Year ended 31 December 2009 HK\$'000 | Seventeen- month Period ended 31 December 2008 HK\$'000 |
| Share subdivision (i) | - | 1,088,698 | - | - |
| Issue of Shares upon exercise of Options (ii) | - | 49,485 | - | 124 |
| Issue of Shares for acquisition of a subsidiary (iii) | - | 110,000 | - | 275 |
| Issue of new Shares upon exercise of Options on 20 July 2009 (ii) | 80 | - | - | - |
| Issue of new Shares upon exercise of Options on 7 August 2009 (ii) | 1,400 | - | 4 | - |
| Issue of Shares for acquisition of a subsidiary (iv) | 93,600 | - | 234 | - |
| | <u>2,431,961</u> | <u>2,336,881</u> | <u>6,080</u> | <u>5,842</u> |
| As of end of year/period | | | | |
| Shares of HK\$0.0025 each | <u>2,431,961</u> | <u>2,336,881</u> | <u>6,080</u> | <u>5,842</u> |

Notes:

- (i) An ordinary resolution proposed at our extraordinary general meeting held on 28 August 2007 to approve the subdivision of every issued and unissued ordinary shares of par value of HK\$0.005 each in our share capital into two subdivided Shares of HK\$0.0025 each was duly passed by our Shareholders. The share subdivision became effective on 29 August 2007.
- (ii) During the seventeen-month period ended 31 December 2008, we allotted and issued 68,388,800, 600,000, 8,600,000 and 200,000 Shares 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 Options.
- During the year ended 31 December 2009, we allotted and issued 80,000, 1,000,000 and 400,000 Shares 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 Options.
- (iii) We issued 110,000,000 Shares ("Allied Resources Consideration Shares") on 29 February 2008 to the sole shareholder of Allied Resources Limited as part of the purchase consideration for the entire issued share capital of Allied Resources Limited. The Allied Resources Consideration Shares rank pari passu with the existing Shares in all respects except that the Allied Resources Consideration Shares were 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 per Share.
- (iv) We issued 93,600,000 Shares ("Chavis Consideration Shares") on 31 December 2009 as part of the purchase consideration for the acquisition of Chavis. 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.

(c) **Changes in the share capital of our subsidiaries**

The following alterations in the share capital of our subsidiaries have taken place within the two years preceding the Latest Practicable Date:

- (i) on 2 January 2009, Aces Diamond Holdings Limited was incorporated and the maximum number of shares authorised to issue is 50,000;
- (ii) on 11 February 2009, Aces Diamond International Limited was incorporated and the maximum number of shares authorised to issue is 50,000;
- (iii) on 30 March 2009, one ordinary share in Aces Diamond Holdings Limited was allotted and issued to us in consideration of US\$1;
- (iv) on 9 April 2009, CCST Singapore Pte. Ltd. was incorporated and 10,000 ordinary shares of S\$1.00 each were allotted and issued to Aces Diamond Holdings Limited in consideration of S\$10,000;
- (v) on 19 May 2009, Dragon Bounty Company Limited was incorporated and the maximum number of shares authorised to issue is 50,000;
- (vi) on 3 July 2009, one ordinary share in Dragon Bounty Company Limited was allotted and issued to Rich Concept in consideration of US\$1;
- (vii) on 21 July 2009, one ordinary share in Aces Diamond International Limited was allotted and issued to Rich Concept in consideration of US\$1;
- (viii) on 17 August 2009, 40 million units (each unit being comprised of one TWE Share, one A Warrant and one B Warrant) were allotted and issued to Aces Diamond International Limited in consideration of C\$2,000,000;
- (ix) pursuant to the board minutes of Jilin Hengli dated 30 November 2009, its registered capital was decreased from RMB37,000,000 to RMB12,155,800;
- (x) on 7 April 2010, Fine Sources Limited was incorporated with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each;
- (xi) on 23 April 2010, one share of HK\$1 in Fine Sources Limited was transferred from Company Kit Secretarial Services Limited to Rich Concept in consideration of HK\$1; and

- (xii) on 29 July 2010, 27 million units (each unit being comprised of one TWE Share, one C Warrant and one D Warrant) were allotted and issued to Aces Diamond International Limited in consideration of C\$1,350,000.

(d) Shares issued for cash and the use of its proceeds

Under the general mandate granted to our Directors by our Shareholders on 12 April 2010, 345,498,000 new Shares were issued to Colpo for cash pursuant to the subscription agreement dated 20 September 2010 between Colpo and us, as supplemented by a supplemental letter between the parties dated 21 September 2010. The said subscription was completed on 4 October 2010.

The gross proceeds and net proceeds from the said subscription are approximately HK\$160.7 million and HK\$153.3 million, respectively, which will mainly be used to fund the 2010 Program and as our additional general working capital.

(e) Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the Latest Practicable Date and are or may be material:


- (i) the supplemental deed dated 9 February 2009 entered into between Rich Concept and Ms. Cheng in relation to, among others, the postponement of the allotment date of the consideration shares, supplemental to the sale and purchase agreement dated 17 September 2008 entered into between Ms. Cheng (as vendor) and Rich Concept (as purchaser) relating to the sale and purchase of the entire issued share capital of Chavis, for a total consideration of US\$4.031 million;
- (ii) the subscription agreement dated 5 July 2009 entered into between Dragon Bounty Company Limited (as subscriber) and Petromin (as issuer) in relation to the subscription for the subordinated unsecured convertible debentures in an aggregate subscription amount of C\$850,000 with 9% coupon rate per annum due 2014;
- (iii) the supplemental deed to the subscription agreement stated in paragraph (ii) above dated 22 July 2009 entered into between Dragon Bounty Company Limited and Petromin amending certain terms of the agreement, including the subscription amount, maximum number of conversion shares and conditions of the subscription agreement;

- (iv) the subscription agreement dated 23 July 2009 entered into between Aces Diamond International Limited and TWE in relation to the subscription for 40 million units (each unit being comprised of one TWE Share, one A Warrant and one B Warrant) by Aces Diamond International Limited for an aggregate amount of C\$2,000,000 pursuant to the terms of the agreement;
- (v) the subscription agreement dated 25 July 2010 entered into between Aces Diamond International Limited and TWE in relation to the subscription for 90 million units (each unit being comprised of one TWE Share, one C Warrant and one D Warrant) by Aces Diamond International Limited for C\$4,500,000 pursuant to the terms of the agreement;
- (vi) the placing agreement dated 20 September 2010 entered into between Colpo, UBS AG, Hong Kong Branch, Quam Securities Company Limited and us in relation to the placing of 345,498,000 existing Shares at HK\$0.465 per Share to certain places pursuant to the terms of the agreement;
- (vii) the subscription agreement dated 20 September 2010 entered into between Colpo and us in relation to the subscription for 345,498,000 Shares by Colpo at a subscription price of HK\$0.465 per Share pursuant to the terms of the agreement;
- (viii) the supplemental letter to the placing agreement stated in paragraph (vi) above dated 21 September 2010 entered into between Colpo, UBS AG, Hong Kong Branch, Quam Securities Company Limited and us amending certain terms of the agreement;
- (ix) the supplemental letter to the subscription agreement stated in paragraph (vii) above dated 21 September 2010 entered into between Colpo and us amending certain terms of the agreement;
- (x) the Deed of Non-competition; and
- (xi) the Deed of Indemnity.

(f) Intellectual property rights of our Group

(i) Trademarks

As of the Latest Practicable Date, our Group had registered the following trademarks in Hong Kong and China, the certificates of registration of which were granted:

| Name of applicant | Trademark | Class | Trademark number | Goods/Services | Place of registration | Date of registration |
|--|---|----------|------------------|--|-----------------------|----------------------|
| Enviro Energy International Holdings Limited |  | 9 and 42 | 300945180 | <p><u>Class 9</u> calculating machines, distance measuring and recording apparatus; leveling and measuring instruments; computer software recorded; diagnostic apparatus, not for medical purposes; meters; probes for scientific purposes; readers data processing equipment; surveying instruments</p> <p><u>Class 42</u> analysis for oil-filed exploitation; calibration measuring; chemical research and analysis; data conversion of computer programs and data not physical conversion; geological and oil prospecting, research and surveys; research in the field of environmental protection</p> | Hong Kong | 31 August 2007 |
| Enviro Energy International Holdings Limited | ENVIRO ENERGY | 9 | 6256389 | calculating machines, distance measuring and recording apparatus; leveling and measuring instrument; computer software recorded; diagnostic apparatus, not for medical purposes; meters; probes for scientific purposes; readers data processing equipment; surveying instruments | China | 21 March 2010 |

As of the Latest Practicable Date, our Group had applied for registration of the following trademark in China, the certificate of registration of which was not yet granted:

| Name of applicant | Trademark | Class | Application number | Goods / Services | Place of application | Date of application |
|--|------------------|-------|--------------------|--|----------------------|---------------------|
| Enviro Energy International Holdings Limited | ENVIRO ENERGY | 42 | 6256391 | analysis for oil-filed exploitation; calibration measuring; chemical research and analysis; data conversion of computer programs and data not physical conversion; geological and oil prospecting, research and surveys; research in the field of environmental protection | China | 3 September 2007 |

(ii) Domain name

As of the Latest Practicable Date, our Group had registered the following domain names:

| Domain name | Registered owner | Expiry date |
|----------------------|--|------------------|
| sysolutions.net | Sys Solutions Limited | 5 July 2011 |
| enviro-energy.com.hk | Enviro Energy International Holdings Limited | 21 February 2011 |
| enviro-energy.cn | Enviro Energy International Holdings Limited | 17 August 2011 |

As of the Latest Practicable Date, we had not been involved in any claims with respect to infringement of intellectual property rights belonging to third parties and, to the knowledge of our Directors, there were no such claims pending or threatened against us.

II. DISCLOSURE OF INTEREST

(a) Directors' and Chief Executives' interests and short positions in Shares, underlying Shares and debentures

Based on the information available on the Latest Practicable Date, the interests and short positions of each of our Directors and chief executives, if any, in the Shares, underlying Shares and debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to be notified to us and the Stock Exchange were as follows:

(i) Long positions of Directors in our Shares and underlying Shares

| Name | Capacity | Nature of interests | Number of Shares held | Number of underlying Shares held | Total | Approximate % of shareholding |
|----------------|--------------------------------------|---------------------|---------------------------|----------------------------------|---------------|-------------------------------|
| Mr. Chan | Interest of a controlled corporation | Corporate interest | 1,185,680,000 (Note i) | – | 1,185,680,000 | |
| | Beneficial owner | Personal interest | 8,834,000 | 28,847,200 (Note ii) | 37,681,200 | |
| | | | 1,194,514,000 | 28,847,200 (Note ii) | 1,223,361,200 | 44.05% |
| Dr. Gorrell | Beneficial owner | Personal interest | 2,625,000 | 5,200,000 (Note ii) | 7,825,000 | 0.28% |
| David Tsoi | Beneficial owner | Personal interest | – | 1,000,000 (Note ii) | 1,000,000 | 0.04% |
| Lo Chi Kit | Beneficial owner | Personal interest | – | 700,000 (Note ii) | 700,000 | 0.03% |
| Tam Hang Chuen | Beneficial owner | Personal interest | 1,000,000 | 200,000 (Note ii) | 1,200,000 | 0.04% |

Notes:

- (i) These Shares are held by Colpo. The entire issued share capital of Colpo is beneficially owned by Mr. Chan, our chairman, chief executive officer and executive Director, who is therefore deemed to be interested in 1,185,680,000 Shares held by Colpo.

Pursuant to the Note Instrument, Green Island Cement Company, Limited is entitled to exchange for up to 200,000,000 Shares held by Colpo at an exercise price of HK\$0.88 per Share, subject to adjustment, within an exercise period of three years commencing from 12 April 2010 to 12 April 2013. As the entire issued share capital of Colpo is beneficially owned by Mr. Chan, he is therefore deemed to have a short position in the 200,000,000 Shares held by Colpo.

- (ii) Total number of Shares to be allotted and issued upon exercise in full of Options granted under our Share Option Scheme.

(ii) Long positions of our Director in TWE Shares and underlying TWE Shares

| Name | Capacity | Nature of interests | Number of TWE Shares held | Number of underlying TWE Shares held | Approximate % of Total shareholding |
|-------------|------------------|---------------------|---------------------------|--------------------------------------|-------------------------------------|
| Dr. Gorrell | Beneficial owner | Personal interest | - | 3,000,000 (Note) | 1.15% |

Note: Total number of TWE Shares to be allotted and issued upon exercise in full of options granted under the articles of TWE.

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

Save as disclosed above, based on the information available as of the Latest Practicable Date, none of our Directors and chief executives had any interest or short position in the Shares, underlying Shares and debentures of our Company or any of our associated corporations that (i) were required to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to be notified us and the Stock Exchange.

None of our Directors was directly or indirectly interested in the promotion of our Company or in any assets which had been, within the two years immediately preceding the Latest Practicable Date, acquired or disposed of by or leased to any member of our Group, or were proposed to be acquired or disposed of by or leased to any member of our Group.

Save as set out above, none of our Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of our Group.

(b) Substantial Shareholder's interests and short positions in Shares and underlying Shares

So far as our Directors were aware of, based on the information available on the Latest Practicable Date, the interests and short positions of 10% or more of our issued share capital held by the following party (other than a Director or chief executive of our Company) recorded in the register of interests required to be kept by us pursuant to Section 336 of the SFO, were as follows:

(i) Interests or short positions in our Shares

| Name | Long/Short positions | Capacity | Number of Shares held | Approximate % of shareholding |
|-------|----------------------|--------------------|----------------------------------|-------------------------------|
| Colpo | Long positions | Beneficially owned | 1,185,680,000 <i>(Note i)</i> | 42.69% |
| | Short positions | Beneficially owned | 200,000,000 <i>(Note ii)</i> | 7.2% |

Notes:

- (i) The entire issued share capital of Colpo was solely and beneficially owned by Mr. Chan, our chairman, chief executive officer and executive Director, who is therefore deemed to be interested in 1,185,680,000 Shares held by Colpo. Mr. Chan's indirect interests in 1,185,680,000 Shares held through Colpo have also been set out in the above section headed 'Directors' and Chief Executives' interests and short positions in Shares, underlying Shares and debentures".
- (ii) Pursuant to the Note Instrument, Green Island Cement Company, Limited is entitled to exchange for up to 200,000,000 Shares held by Colpo at an exercise price of HK\$0.88 per Share, subject to adjustment, within an exercise period of three years commencing from 12 April 2010 to 12 April 2013. As the entire issued share capital of Colpo was solely and beneficially owned by Mr. Chan, he is therefore deemed to have a short position in 200,000,000 Shares held by Colpo.

Save as disclosed above, based on the information available on the Latest Practicable Date, our Directors were not aware of any person (other than our Directors whose interests are set out in the section headed "Directors' and Chief Executives' interests and short positions in Shares, underlying Shares and debentures" above) had registered an interest or short position in our Shares or underlying Shares that was required to be recorded pursuant to Section 336 of the SFO.

(c) **Interests of substantial shareholders of any member of our Group (other than our Company)**

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Transfer, be interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company) or any options in respect of such capital.

III. SUBSIDIARIES

(a) Details of the subsidiaries, which were all private limited liability companies, held by our Company as of the Latest Practicable Date are set out as follows:

| Name | Date of incorporation | Place of incorporation | Nominal value of issued shares/ paid-up capital | Percentage of equity attributable to our Company | | Principal activities and place of operation |
|-----------------------------|-----------------------|--------------------------|---|--|----------|--|
| | | | | Direct | Indirect | |
| Sys Solutions (BVI) Limited | 4 June 2002 | BVI | US\$10,000 ordinary | 100 | – | Investment holding in Hong Kong |
| Allied Resources Limited | 21 July 2006 | Hong Kong | HK\$1 ordinary | 100 | – | Investment holding in Hong Kong |
| Rich Concept | 28 November 2006 | BVI | US\$10,000 ordinary | 100 | – | Investment holding in Hong Kong |
| Jilin Hengli [#] | 12 May 1998 | PRC | RMB 12,155,800 | – | 100 | Investment holding in the PRC |
| Chavis | 2 January 2008 | BVI | 1 ordinary with no par value | – | 100 | Investment holding in Hong Kong |
| TWE | 30 September 2003 | British Columbia, Canada | C\$ 7,317,000 common stock with no par value C\$ 3,771,603 preferred stock with no par value | – | 64.98 | CBM and natural gas exploration and development in the PRC |

| Name | Date of incorporation | Place of incorporation | Nominal value of issued shares/ paid-up capital | Percentage of equity attributable to our Company | | Principal activities and place of operation |
|---|-----------------------|------------------------|---|--|----------|---|
| | | | | Direct | Indirect | |
| Sys Solutions Limited | 5 July 2000 | Hong Kong | HK\$1,000,000 ordinary | - | 100 | Provision of network infrastructure solutions and services in Hong Kong |
| Sys Solutions Technology Consulting Limited | 19 March 2003 | Hong Kong | HK\$10,000 ordinary | - | 100 | Provision of network infrastructure solutions and services in Hong Kong |
| China Enviro Energy Holdings Limited | 1 March 2007 | Hong Kong | HK\$1 ordinary | - | 100 | Inactive in Hong Kong |
| Basic Corporation Limited | 13 February 2008 | Hong Kong | HK\$1 ordinary | - | 100 | Membership holding in Hong Kong |
| Sun Ray (China) Limited | 20 March 2008 | Hong Kong | HK\$1 ordinary | - | 100 | Vehicle holding in Hong Kong |
| Dragon Bounty Company Limited | 19 May 2009 | BVI | US\$1 ordinary | - | 100 | Investment holding in Hong Kong |
| Aces Diamond Holdings Limited | 2 January 2009 | BVI | US\$1 ordinary | 100 | - | Investment holding in Hong Kong |
| CCST Singapore Pte. Ltd. | 9 April 2009 | Singapore | S\$10,000 ordinary | - | 100 | Environmental projects in South East Asia |
| Aces Diamond International Limited | 11 February 2009 | BVI | US\$1 ordinary | - | 100 | Investment holding in Hong Kong |
| Fine Sources Limited | 7 April 2010 | Hong Kong | HK\$1 ordinary | - | 100 | Membership holding in Hong Kong |

Wholly-owned foreign enterprise established in the PRC.

- (b) Details of outstanding warrants of TWE and their respective exercise prices are set out below:

| | Outstanding ('000) | | | Exercise price (C\$ per warrant) | | |
|----------------|-----------------------------------|---------------------|---------------------|-----------------------------------|---------------------|---------------------|
| | As of the Latest Practicable Date | At 31 December 2009 | At 31 December 2008 | As of the Latest Practicable Date | At 31 December 2009 | At 31 December 2008 |
| A Warrant | 40,000 | 40,000 | - | 0.10 | 0.10 | - |
| B Warrant | 40,000 | 40,000 | - | 0.15 | 0.15 | - |
| C Warrant | 27,000 | - | - | 0.07 | - | - |
| D Warrant | 27,000 | - | - | 0.10 | - | - |
| Other warrants | - | 13,000 | 53,000 | - | 0.03 | 0.03 |
| | <u>134,000</u> | <u>93,000</u> | <u>53,000</u> | | | |

TWE had 134 million outstanding warrants as of the Latest Practicable Date. Upon the full conversion of all outstanding warrants of TWE, our Group would hold approximately 74.25% controlling interest of the enlarged capital. TWE will remain a subsidiary of our Group after the full conversion of all outstanding warrants.

TWE had also issued 8 million preferred shares as of the Latest Practicable Date. 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 amount of paid-in capital of the preferred shares less any dividends or other distributions made by TWE to the holders of preferred shares in preference to the holders of common shares. The preferred shares of TWE will have a preference as to dividends or any other distributions by TWE to the shareholders. Each preferred share is convertible into one TWE Share 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, our Group did not hold more than 50% interest in TWE (including the consideration of potential voting rights), but our Directors considered our 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 our Group since the date of acquisition.

None of the subsidiaries had issued any debt securities which remained outstanding as of the Latest Practicable Date.

IV. PARTIES INVOLVED IN THE TRANSFER

| | |
|---|--|
| Legal advisor on law of Hong Kong | DLA Piper Hong Kong 17/F, Edinburgh Tower The Landmark 15 Queen's Road Central Central Hong Kong |
| Legal advisor on law of Cayman Islands | Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands |
| Legal advisor on law of PRC | Zhong Lun Law Firm 10/F, Tower A Rongchao Centre 6003 Yitian Road Futian District Shenzhen 518026 PRC |
| Competent Persons | Norwest Corporation Suite 2700, 411-1st Street SE Calgary, Alberta, Canada T2G 4Y5 Source Rock Engineering Suite 335, 7931 South Broadway Littleton, CO USA, 80112 |
| Valuers | Greater China Appraisal Limited Room 2703, Shui On Centre 6-8 Harbour Road, Wanchai Hong Kong |
| Auditors | PricewaterhouseCoopers (<i>Certified public accountant</i>) 22/F, Prince's Building Central Hong Kong |

V. OTHER INFORMATION**(a) Tax and other indemnity**

Our Controlling Shareholders (the “**Indemnifiers**”) have entered into the Deed of Indemnity (being the material contract (xi) in the paragraph headed “I. Further information about our Group — (e) Summary of material contracts” in this Appendix) with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of our Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of our Group on or before the date on which the Transfer becomes unconditional under the Deed of Indemnity.

Under the Deed of Indemnity, the Indemnifiers have also given indemnities to our Group on a joint and several basis in relation to taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Transfer becomes unconditional under the Deed of Indemnity.

(b) Regulatory Matters

Save as disclosed above, we have complied with all relevant laws and regulations in all jurisdictions where we have operated during the Relevant Periods and the nine-month period ended 30 September 2010 and we have obtained all relevant approvals, permits, licenses and certificates required for our operations.

(c) Legal Proceedings

As of the Latest Practicable Date, neither our Company nor our subsidiaries were involved in any litigation or arbitration of material importance and, so far as our Directors were aware, save for an alleged claim dated 15 November 2010 by a former shareholder of Jilin Hengli against Jilin Hengli and Allied Resources Limited (a subsidiary of our Company and the holding company of Jilin Hengli), for outstanding dividends of approximately RMB11.5 million receivable from Qian An (a 50%-owned equity joint venture of Jilin Hengli) prior to our acquisition of 50% equity interests of Qian An, no litigation or claim of material importance was pending or threatened by or against any member of our Group. Our Company has been advised by our PRC legal advisors that neither Jilin Hengli nor Allied Resources Limited is required to pay such amount of dividends until Jilin Hengli receives the same from Qian An. As of the Latest Practicable Date, Jilin Hengli had not received such amount from Qian An and therefore such alleged claim is groundless. The Board considers that the alleged claim will not have any material effect on our business operation and financial condition.

Further, as of the Latest Practicable Date, we had also not been involved in any claims which would influence our rights to explore, mine or drill and, to the knowledge of our Directors, there are no such claims pending or threatened against us.

(d) Consent of experts

The followings are the qualifications of the experts who have given opinion or advice which are contained in this circular:

| Name | Qualifications |
|---------------------------------|---------------------------------|
| Norwest Corporation | Technical advisors |
| Source Rock Engineering | Technical advisors |
| Greater China Appraisal Limited | Chartered surveyors and valuers |
| Zhong Lun Law Firm | Legal advisor |

Each of the experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

None of the experts was directly or indirectly interested in the promotion of our Company or in any assets which had been, within the two years immediately preceding the Latest Practicable Date, acquired or disposed of by or leased to any member of our Group, or were proposed to be acquired or disposed of by or leased to any member of our Group.

Save as set out above, none of the experts was materially interested in any contract or arrangement subsisting as of the Latest Practicable Date which was significant in relation to the business of our Group.

None of the experts has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of our Group or is an officer or servant or a partner of or in the employment of an officer or servant of our Group.

(e) Taxation of holders of our Shares

(i) Cayman Islands

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty unless we hold an interest in land in the Cayman Islands.

(ii) *Hong Kong*

Dealings in Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty. Intending holders of our Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasised that none of us, our Directors or the other parties involved in the Transfer can accept responsibility for any tax effect on, or liabilities of, holders of our Shares resulting from their subscription for, purchase, holding or disposal of or dealing in our Shares. Profit from dealings in our Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, which is charged on each of the purchaser and seller at HK\$1 for every HK\$1,000 or part thereof against the higher of the consideration or the fair value of our Shares being sold or transferred.

(f) **Miscellaneous**

- (i) Save as disclosed in this circular, within the two years preceding the Latest Practicable Date, no Share or loan capital of us or any of our subsidiaries had been issued or was proposed to be issued for cash or otherwise and no commission, discounts, brokerages or other special terms had been granted by us or any of our Subsidiaries or Directors or experts in connection with the issue or sale of any such capital.
- (ii) Save as disclosed in this appendix and in the section headed "V. SHARE OPTION SCHEME AND TWE SCHEME" in Appendix III to the circular, none of the issued share capital of our Company, TWE or other members of our Group was under option or agreed conditionally or unconditionally to be put under option nor there was any alteration in the capital of any member of our Group within the two years immediately preceding the Latest Practicable Date.
- (iii) Save as disclosed in this circular, within the two years preceding the Latest Practicable Date, no founders or deferred Shares of us, or any of our subsidiaries had been issued or agreed to be issued.

Copies of the following documents will be available for inspection at Unit 806, Level 8, Core D, Cyberport 3, 100 Cyberport Road, Hong Kong during normal business hours up to and including the date that is 14 days from the date of this circular:

- (a) our Memorandum and Articles;
- (b) our annual report for the year ended 31 July 2007 published on 12 October 2007;
- (c) our annual report for the seventeen-month period ended 31 December 2008 published on 23 March 2009;
- (d) our annual report for the year ended 31 December 2009 published on 19 March 2010;
- (e) our third quarterly report for the nine-month period ended 30 September 2010 published on 12 November 2010;
- (f) the letter, summary of valuation and valuation certificate relating to the property interests of our Group prepared by Greater China Appraisal Limited, the text of which is set out in Appendix V to this circular;
- (g) the Competent Person's Report prepared by Norwest Corporation, the text of which is set out in Appendix VI to this circular;
- (h) the letter from Source Rock Engineering in relation to the Scoping Study, the text of which is set out in Appendix VII to this circular;
- (i) the material contracts referred to in the paragraph headed "Summary of material contracts" of section I of Appendix X to this circular;
- (j) the written consents referred to in the paragraph headed "Consent of experts" of section V of Appendix X to this circular; and
- (k) the PRC legal opinions issued by Zhong Lun Law Firm.