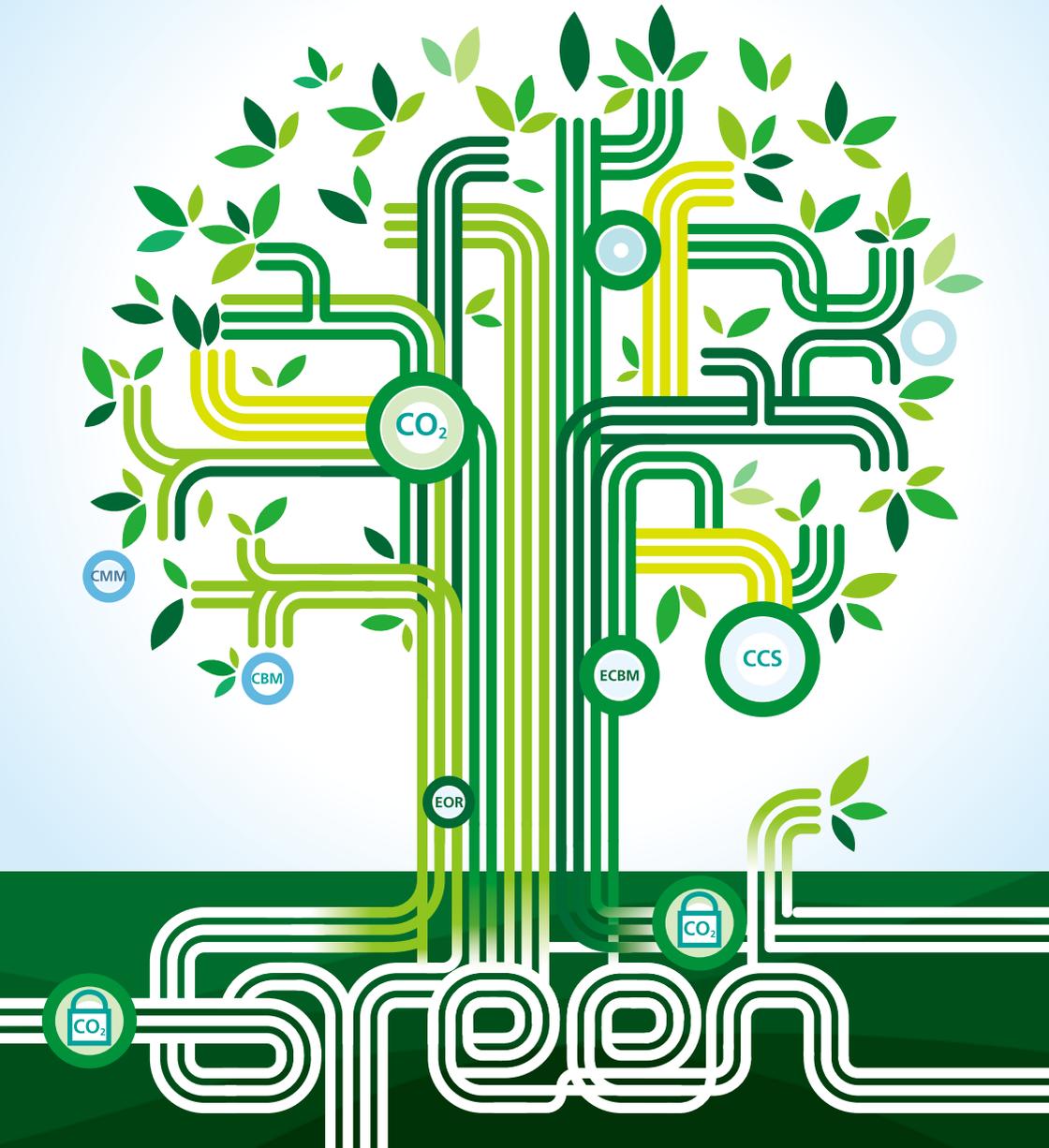




Enviro Energy International Holdings Limited
環能國際控股有限公司

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

Third Quarterly Report 2009



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



MANAGEMENT DISCUSSION AND ANALYSIS

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

Business Review

Unconventional natural gas business

At the Liuhuanggou project in Xinjiang, the People's Republic of China ("**PRC**"), during the period under review, TerraWest Energy Corp. ("**TWE**") arranged with a drilling contractor to begin drilling operations at three locations identified during the geological survey completed earlier this year.

Well LHG 09-01 and well LHG 09-02 are intended to core an entire section of Jurassic Badaowan ("**J1B**") formation for further sampling and analysis. Well LHG 09-03 is intended to core Jurassic Xishanyao ("**J2X**") formation to further assess the gas content of the coal seams. All the wells will be logged by geophysical instruments.

TWE began preparations to undertake pre-piloting work by re-initiating a gas flow test at well LHG 08-01 where the previous test had been stopped due to cold weather in late 2008. TWE's drilling engineer completed a well workover plan and will assemble various local contractors in the early next quarter. TWE also initiated pre-piloting engineering for well LHG 08-03 which was drilled, logged and cased in 2008. TWE contracted Norwest Corporation to undertake completion designs for the deep section of the J1B formation as well as the shallow section of the J2X formation. These completion designs will serve as completion templates for the pilot production wells planned for 2010.

TWE and China United Coalbed Methane Corporation Limited ("**CUCBM**") hold an interest of 47% and 53%, respectively, in a production sharing contract dated 30 December 2005 ("**PSC**"). Under the terms of the PSC, TWE has the right to explore for, develop, produce and sell coalbed methane ("**CBM**") which is defined as gas stored in certain named geological formations of Jurassic age to a depth of 1,500 metres. Administration of the PSC was recently passed to PetroChina Coalbed Methane Company Ltd., a subsidiary of China National Petroleum Corporation.



Conventional crude oil business

During the third quarter of 2009, the crude oil price in the PRC increased slightly and maintained at a level ranging between approximately US\$60 to US\$70 per barrel. PetroChina Company Limited (“**PetroChina**”), the operator of the two oilfields of Qian An Oil Development Co., Ltd. (“**Qian An Oilfields**”), had increased the crude oil production levels for the last three months. Profit had been resumed during the three months ended 30 September 2009.

Environmental technologies

The Deep Un-mineable Coal Carbon Dioxide (“**CO₂**”) Sequestration and Enhanced CBM Production Project (“**JV Project**”) operated under the cooperative joint venture agreement dated 25 January 2008 (“**JV Agreement**”) between the Company, CUCBM and Petromin Resources Ltd. (“**Petromin**”) continued to move ahead smoothly during the period under review. CUCBM, the pilot operator, completed arrangements for the supply of CO₂ to the target well. On behalf of the Company and Petromin, the Group’s technology partner, Alberta Research Council of Canada, provided the CO₂ injection well design which will form the basis for the injection and subsequent operation of the well.

The JV Project involves injecting CO₂ into a coal formation to test CO₂ sequestration and storage and enhanced CBM production. Pursuant to the JV Agreement, the Company holds a 20% participating interest in the JV Project which is operated by CUCBM.

Business prospects

Unconventional natural gas business

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



International shale gas developments

The Group continues to follow international trends and developments in shale gas because of the potential positive impact that such developments may have on expansion of natural gas utilisation and the commensurate positive impact on the environment. It was reported that international majors Shell and Exxon have both launched shale gas exploration efforts in Western Europe. This activity reflects the growing attraction to shale gas development globally, following on the successes of developments in North America. The Group considers the continued international expansion of such activity to be an acknowledgement of the early mover and leading edge attributes of the Group's strategy in unconventional natural gas in the PRC.

Conventional crude oil business

Overall oil demand in the PRC increased in the third quarter to offset an overall slight drop in demand in the first half of the year. As a result, the US Energy Information Administration ("EIA") adjusted the outlook for the PRC by increasing its estimate of oil demand for 2009 by 1.1%. "Sustained economic growth in China and signs of a turnaround in other Asian countries continue to fuel expectations of a global recovery in world oil consumption," the EIA said in its statement reported on 9 October 2009.

The Group therefore remains positive about oil price levels for the remainder of the year.

Looking ahead, the Qian An Oilfields will benefit from increased oil price levels and opportunities for further development that could include in-fill drilling, opening additional by-pass pay formation zones, new target formation drilling and enhanced production concepts.

FINANCIAL REVIEW

Oil and gas segment

Unconventional natural gas business

The PSC, being initially recognised as an intangible asset of the Group is amortised on a straight-line basis over the remaining contract term of 28 years. The amortisation of the PSC of approximately HK\$23,991,000 and relative deferred tax credit of approximately HK\$5,998,000 were recognised during the nine-month period ended 30 September 2009.

There were two transactions recorded during the reporting period that resulted in a net increase in the equity position in TWE held by the Group.



Firstly on 11 February 2009, Petromin exercised its warrants to acquire 16,666,667 new common shares in TWE at C\$500,000 (equivalent to approximately HK\$3,080,000), representing approximately 5.74% of the issued common and preferred shares in the capital of TWE. As a result of the Group's deemed disposal of approximately 5.74% of its interest in TWE due to the warrants exercised by Petromin, its controlling interest was reduced to approximately 58.17%. Approximately HK\$33,804,000 had been recognised to reduce the Group's equity in TWE as a result of the deemed partial disposal.

Secondly on 17 August 2009, the Group completed the subscription for 40,000,000 TWE common shares, 40,000,000 A warrants at an exercise price of C\$0.10 per TWE common share ("**A Warrant**") and 40,000,000 B warrants at an exercise price of C\$0.15 per TWE common share ("**B Warrant**") at an aggregate amount of C\$2,000,000 (equivalent to approximately HK\$13,427,000). Each A Warrant and B Warrant entitles the holder to purchase one TWE common share within two to three years, respectively, following the date of issuance of such warrants. As the subscription represented an acquisition of an additional 7.41% interests in TWE by the Group, the Group's controlling interest was increased to approximately 65.58%. Approximately HK\$51,654,000 had been recognised to increase the Group's equity in TWE.

On 11 August 2009, the Group acquired a 9% subordinated unsecured convertible debentures ("**Debentures**") issued by Petromin at an aggregate amount of C\$630,000 (equivalent to approximately HK\$4,230,000). Upon full conversion of the Debentures, Petromin will allot and issue to the Group a maximum of 3,150,000 new common shares. The Group had recognised interest income of C\$8,000 (equivalent to approximately HK\$56,000) during the three-month period ended 30 September 2009.

Conventional crude oil business

Since crude oil production levels and average international oil price had been increasing during the three-month period ended 30 September 2009, share of profit of a jointly-controlled entity of approximately HK\$580,000 (2008: HK\$3,008,000) was recorded. However, due to continuous low crude oil price in the first half of 2009 in the PRC, the jointly-controlled entity still recorded a loss of approximately HK\$2,854,000 for the nine-month period ended 30 September 2009 (2008: a profit of approximately HK\$7,473,000).



Information technology (“IT”) and network infrastructure segment

During the period under review, the Group continued focusing its resources on energy-related business and scaled-down its IT solutions and services business. As a result of the Group’s change in business model, the Group’s revenue generated from IT related businesses dropped by approximately HK\$644,000 from approximately HK\$880,000 to approximately HK\$236,000, representing a decrease of approximately 73% as compared with the same period of 2008.

Administrative and operating expenses

Administrative and operating expenses decreased by approximately HK\$7,378,000 from approximately HK\$57,757,000 to approximately HK\$50,379,000 compared with the same period of 2008. This was primarily due to the recognition of the PSC amortisation of approximately HK\$23,991,000 (2008: Nil), which was mainly offset by the significant drop in legal and professional fees by approximately HK\$26,044,000 to approximately HK\$3,738,000 (2008: HK\$29,782,000).

Share-based payment

As a result of an additional 32,745,000 share options granted on 15 June 2009, equity settled share-based payment of approximately HK\$2,883,000 was recognised.

Other comprehensive income

Exchange differences arising on translation of Canadian operation substantially increased to approximately HK\$83,614,000 (2008: a loss of approximately HK\$363,000) because the Canadian dollars as a functional currency, against the Hong Kong dollars as a presentation currency, increased significantly by approximately 14% when translating the carrying value of the Group’s Canadian subsidiary during the period.

LBITDA and loss attributable to equity holders of the Company

Compared with the same period of 2008, adjusted LBITDA (Loss before interest, tax, depreciation and amortisation) decreased by approximately HK\$15,334,000 from approximately HK\$49,430,000 to approximately HK\$34,096,000, and the loss attributable to equity holders of the Company decreased by approximately 11.7% from approximately HK\$47,953,000 to approximately HK\$42,327,000.



CONDENSED CONSOLIDATED INCOME STATEMENT

The board of Directors ("Board") announces that the unaudited consolidated income statement and consolidated statement of comprehensive income/(loss) of the Group for the three-month and nine-month periods ended 30 September 2009, together with comparative figures for the same corresponding period in 2008 were as follows:

	Notes	For the three-month period ended 30 September		For the nine-month period ended 30 September	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Revenue	2	45	361	236	880
Cost of sales		(34)	(302)	(174)	(398)
Gross profit		11	59	62	482
Other operating income	2	61	572	96	2,032
Share-based payment		(2,261)	(162)	(2,883)	(183)
Administrative and operating expenses		(12,878)	(11,853)	(50,379)	(57,757)
Share of results of a jointly-controlled entity		580	3,008	(2,854)	7,473
Loss before taxation		(14,487)	(8,376)	(55,958)	(47,953)
Income tax	3	2,157	-	5,998	-
Net loss for the period		(12,330)	(8,376)	(49,960)	(47,953)
Loss attributable to:					
Equity holders of the Company		(9,967)	(8,376)	(42,327)	(47,953)
Non-controlling interests		(2,363)	-	(7,633)	-
		(12,330)	(8,376)	(49,960)	(47,953)
Loss per share	5				
Basic		(HK\$0.0043)	(HK\$0.0036)	(HK\$0.0181)	(HK\$0.0207)
Diluted		N/A	N/A	N/A	N/A



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Net loss for the period	(12,330)	(8,376)	(49,960)	(47,953)
Other comprehensive income/(loss):				
Exchange differences arising on translation of foreign operations	52,760	(967)	83,614	(363)
Change in fair value of available-for-sale financial assets, net of tax	(282)	(574)	1,119	(960)
Total comprehensive income/(loss) for the period	40,148	(9,917)	34,773	(49,276)
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	19,251	(9,917)	4,160	(49,276)
Non-controlling interests	20,897	-	30,613	-
	40,148	(9,917)	34,773	(49,276)



Notes:

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited condensed consolidated income statement and statement of comprehensive income/(loss) of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and in compliance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the GEM Listing Rules. They have been prepared on the historical cost basis except for certain intangible assets and financial instruments, which are measured at fair values and are consistent with those followed in the Group’s audited financial statements for the seventeen-month period ended 31 December 2008.

In the current period, the Group has applied, for the first time, the following new standards, amendments and interpretations (hereinafter collectively referred to as “**New HKFRSs**”) issued by the HKICPA, which are or have become effective for the Group’s financial period beginning 1 January 2009:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 and HKAS 39	Embedded Derivatives
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

The application of the New HKFRSs does not have any material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.



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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvement to HKFRSs 2009 ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)-Int 18	Transfers of Assets from Customers ²

¹ Effective for annual periods beginning on or after 1 July 2009.

² Effective for transfers of assets from customers received on or after 1 July 2009.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

In addition, the Group has early adopted the following revised standards for the nine-month period ended 30 September 2009:

HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements

As the Group has early adopted HKFRS 3 (Revised), it is required to early adopt HKAS 27 (Revised) at the same time. HKAS 27 (Revised) provides that the changes in parent's ownership interest that do not result in the loss of control are accounted for as equity transactions and these undertaken transactions will no longer result in goodwill or gains and losses. When control is lost, any remaining interest in the entity is remeasured to fair value and the difference between the fair value and the carrying amount is recognised in the income statement.



2. REVENUE AND OTHER OPERATING INCOME

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

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

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Revenue				
Network infrastructure construction solutions	40	114	208	146
Network infrastructure maintenance	–	67	23	254
Other professional value-added solutions and service	5	180	5	480
	45	361	236	880
Other operating income				
Debentures interest income	56	–	56	–
Bank interest income	5	572	40	2,032
	61	572	96	2,032
	106	933	332	2,912

3. INCOME TAX

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Current income tax	–	–	–	–
Deferred income tax credit	2,157	–	5,998	–
Income tax credit	2,157	–	5,998	–

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



No Hong Kong Profits Tax had been provided as the Group did not have any assessable profits in Hong Kong for the period (2008: Nil).

PRC Enterprise Income Tax of 25% had not been provided for the PRC subsidiaries as they did not generate any assessable profits for the period (2008: Nil).

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

4. DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine-month period ended 30 September 2009 (2008: Nil).

5. LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Basic loss per share is calculated as follows:

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2009 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2008 (Unaudited)
Loss attributable to equity holders of the Company for the purpose of calculating basic loss per share (HK\$'000)	(9,967)	(8,376)	(42,327)	(47,953)
Weighted average number of ordinary shares for the purpose of calculating basic loss per share ('000)	2,337,775	2,336,881	2,337,180	2,312,799
Basic loss per share (HK\$)	(0.0043)	(0.0036)	(0.0181)	(0.0207)



(b) Diluted

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

Diluted loss per share is calculated as follows:

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2009 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2008 (Unaudited)
Loss attributable to equity holders of the Company for the purpose of calculating diluted loss per share (HK\$'000)	(9,967)	(8,376)	(42,327)	(47,953)
Weighted average number of ordinary shares for the purpose of calculating basic loss per share ('000)	2,337,775	2,336,881	2,337,180	2,312,799
Effect of dilutive potential ordinary shares in respect of deferred consideration for acquisition of Chavis International Limited ('000)*	93,600	–	93,600	–
Effect of dilutive potential ordinary shares in respect of share options ('000)	28,220	24,913	20,006	30,236
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share ('000)	2,459,595	2,361,794	2,450,786	2,343,035
Diluted loss per share (HK\$)	N/A	N/A	N/A	N/A

Diluted loss per share for each of the three-month and nine-month periods ended 30 September 2008 and 2009 has not been presented, as the share options outstanding during each of the three-month and nine-month periods ended 30 September 2008 and 2009 had an anti-dilutive effect on the basic loss per share for the respective periods.

* Pursuant to the sale and purchase agreement dated 17 September 2008, part of the consideration will be settled by way of the issue of 93,600,000 new shares at HK\$0.25 each. As at 30 September 2009, the consideration shares were not issued yet.



6. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Attributable to equity holders of the Company HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
As at 31 December 2007 and 1 January 2008 (Unaudited)	5,564	535,401	83,977	(192,094)	432,848	-	432,848
Loss for the period	-	-	-	(47,953)	(47,953)	-	(47,953)
Other comprehensive loss:							
Fair value changes on available-for-sale financial assets, net of tax	-	-	(960)	-	(960)	-	(960)
Exchange differences arising on translation of foreign operations	-	-	(363)	-	(363)	-	(363)
Total comprehensive loss for the nine-month period ended 30 September 2008	-	-	(1,323)	(47,953)	(49,276)	-	(49,276)
Recognition of equity settled share-based payment	-	-	183	-	183	-	183
Exercise of share options	3	977	(379)	-	601	-	601
Forfeiture of share options	-	-	(2,752)	2,752	-	-	-
Issue of new shares	275	109,725	-	-	110,000	-	110,000
	278	110,702	(2,948)	2,752	110,784	-	110,784
As at 30 September 2008 (Unaudited)	5,842	646,103	79,706	(237,295)	494,356	-	494,356
As at 31 December 2008 and 1 January 2009 (Audited)	5,842	646,103	58,836	(79,881)	630,900	231,302	862,202
Loss for the period	-	-	-	(42,327)	(42,327)	(7,633)	(49,960)
Other comprehensive income/(loss):							
Fair value changes on available-for-sale financial assets, net of tax	-	-	1,119	-	1,119	-	1,119
Exchange differences arising on translation of foreign operations	-	-	45,368	-	45,368	38,246	83,614
Total comprehensive income/(loss) nine-month period ended 30 September 2009	-	-	46,487	(42,327)	4,160	30,613	34,773
Deemed disposal of a subsidiary	-	-	(33,804)	-	(33,804)	36,884	3,080
Acquisition of additional interests in a subsidiary	-	-	51,654	-	51,654	(51,654)	-
Exercise of share options	4	297	(145)	-	156	-	156
Recognition of equity settled share-based payment	-	-	2,540	-	2,540	-	2,540
Forfeiture of share options	-	-	(24)	24	-	-	-
	4	297	20,221	24	20,546	(14,770)	5,776
As at 30 September 2009 (Unaudited)	5,846	646,400	125,544	(122,184)	655,606	247,145	902,751



7. SHARE-BASED PAYMENTS TRANSACTION

The fair value of options granted under the post-IPO share option scheme adopted by the Company on 25 January 2003 ("**Share Option Scheme**"), amounted to approximately HK\$2,261,000 and approximately HK\$2,883,000 for the three-month and nine-month periods ended 30 September 2009, respectively (approximately HK\$162,000 and HK\$183,000 for the three-month and nine-month periods ended 30 September 2008, respectively).

Regarding the share options granted on 19 June 2008 and 15 June 2009, 50% of the share options shall be exercised in a period commencing two years from the date of grant and expiring on the tenth anniversary from the date of grant. The balance of 50% of the share options shall be exercised in a period commencing three years from the date of grant and expiring on the tenth anniversary from the date of grant.

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

Date of grant (dd/mm/yyyy)	Dividend yield	Expected volatility⁽ⁱ⁾	Risk-free rate⁽ⁱⁱ⁾	Exercise price of share options⁽ⁱⁱⁱ⁾ <i>HK\$ per share</i>
15/06/2009	Nil	59.5%	2.911%	0.730
19/06/2008	Nil	47.8%	3.730%	0.2316

Notes:

- (i) The expected volatility of the options was calculated based on the historical stock price of the Company and comparable companies, respectively. It is assumed that the volatility is constant throughout the option life.
- (ii) The risk free rate has made reference to the yield of the Hong Kong Exchange Fund Notes ("**EFN**") as at the grant date. In this valuation, the yield of 10-year EFN has been adopted in the estimation of risk-free rate for the option.
- (iii) The exercise price of the granted options is the highest of (i) the closing price of the Company's shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the share.
- (iv) The values of the options are subject to the limitations of the Binomial option pricing model and a number of assumptions which are subjective and difficult to ascertain. Changes in subjective input assumptions could materially affect the fair value estimate.
- (v) The outstanding share options as at 30 September 2009 had a weighted average remaining contractual life of 5.61 years (31 December 2008: 4.76 years).
- (vi) If the options are forfeited before expiration or lapsed, the related share option reserve will be transferred directly to accumulated losses of the Company.



8. CAPITAL COMMITMENTS

	As at 30 September 2009 HK\$'000 (Unaudited)	As at 31 December 2008 HK\$'000 (Audited)
Contracted for but not provided in the consolidated financial statements in respect of:		
– PSC ⁽ⁱ⁾	20,280	20,280
– JV Agreement ⁽ⁱⁱ⁾	1,868	1,868
– Exploration and evaluation assets	4,733	–
	26,881	22,148

Notes:

- (i) The amount of approximately HK\$20,280,000 (equivalent to US\$2,600,000) represents the minimum work obligations, as required by the PSC to be incurred before the end of February 2011.
- (ii) Pursuant to the JV Agreement, the Company had agreed to contribute RMB3,460,000 (equivalent to approximately HK\$3,944,000) jointly with Petromin for the engineering design and study, simulation technology and analysis, materials and salaries etc in the first phase. An additional RMB15,000,000 (equivalent to approximately HK\$17,100,000) or more would be funded in the second phase. The capital contribution of each party in the second phase would be further determined.



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

As at 30 September 2009, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

Name	Capacity	Nature of interests	Number of shares held	Number of underlying shares held	Total	Approximate % of shareholding
Chan Wing Him Kenny	(i) Interest of a controlled corporation	(i) Corporate interest	(i) 1,185,680,000 (Note)	-	1,185,680,000	
	(ii) Beneficial owner	(ii) Personal interest	(ii) 1,756,000	(ii) 20,347,200	22,103,200	
			1,187,436,000	20,347,200	1,207,783,200	51.65%
Arthur Ross Gorrell	Beneficial owner	Personal interest	2,625,000	4,700,000	7,325,000	0.31%
David Tsoi	Beneficial owner	Personal interest	-	750,000	750,000	0.03%
Lo Chi Kit	Beneficial owner	Personal interest	-	600,000	600,000	0.03%
Tam Hang Chuen	Beneficial owner	Personal interest	1,000,000	100,000	1,100,000	0.05%

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

Donald O Downing	Beneficial owner	Personal interest	-	2,350,000	2,350,000	0.10%
Poon Lai Yin Michael	Beneficial owner	Personal interest	-	1,500,000	1,500,000	0.06%

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



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

Name	Capacity	Nature of interests	Number of common shares held	Number of underlying shares held	Total	Approximate % of shareholding
Arthur Ross Gorrell	Beneficial owner	Personal interest	–	3,000,000	3,000,000	1.33%

Long positions of chief executive in common shares and underlying shares of TWE

Donald O Downing	Beneficial owner	Personal interest	500,000	3,500,000 (Note)	4,000,000	1.77%
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Note: Such number of underlying shares consists of (a) 3,000,000 stock options exercisable at a price of C\$0.03 per common share of TWE during the period from 27 August 2008 to 27 August 2011; and (b) 500,000 warrants exercisable at a price of C\$0.03 per common share of TWE with expiry date on 18 February 2010.

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

Save as disclosed above, as at 30 September 2009, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation that (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.



Substantial Shareholder's Interests and Short Positions in Shares and Underlying Shares

As at 30 September 2009, the interests and short positions of 10% or more of the issued share capital of the Company held by the following party (other than a Director or chief executive of the Company) recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Long positions in the ordinary shares of the Company

Name	Capacity	Number of shares held	Approximate % of shareholding
Colpo	Beneficial owner	1,185,680,000 (Note)	50.71%

Note: The entire issued share capital of Colpo was solely and beneficially owned by Mr. Chan Wing Him Kenny, the chairman and the CEO of the Company and an executive Director, who is therefore deemed to be interested in 1,185,680,000 shares in the Company held by Colpo. Mr. Chan Wing Him Kenny's indirect interests in 1,185,680,000 shares in the Company held through Colpo have also been set out in the above section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures".

Save as disclosed above, as at 30 September 2009, no person (other than the Directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above) had registered any interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEMES

1. Share Option Scheme of the Company

On 25 January 2003, the rules of the Share Option Scheme were approved and adopted pursuant to a written resolution of the Company.

As at 30 September 2009, details of the share options granted under the Share Option Scheme (including the options granted to Directors and chief executives of the Company disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures") were as follows:



Name or category of participants	Date of grant (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Exercise price per share (HK\$)	Number of Share Options				
				As at 1 January 2009	Granted during the nine-month period	Lapsed/cancelled during the nine-month period	Exercised during the nine-month period	As at 30 September 2009
Directors, chief executives, management shareholders or substantial shareholders or their respective associates:								
Chan Wing Him Kenny	29/12/2006	29/12/2006 to 24/1/2013	0.0635 ⁽¹⁾	15,847,200 ⁽¹⁾	-	-	-	15,847,200 ⁽¹⁾
	22/6/2007	22/6/2007 to 24/1/2013	1.365 ⁽²⁾	2,000,000 ⁽²⁾	-	-	-	2,000,000 ⁽²⁾
	19/6/2008	19/6/2010 to 19/6/2018	0.2316	500,000 ⁽³⁾	-	-	-	500,000 ⁽³⁾
	15/6/2009	15/6/2011 to 14/6/2019	0.73	-	2,000,000 ⁽³⁾	-	-	2,000,000 ⁽³⁾
Arthur Ross Gorrell	22/6/2007	22/6/2007 to 24/1/2013	1.365 ⁽²⁾	1,500,000 ⁽²⁾	-	-	-	1,500,000 ⁽²⁾
	29/10/2007	29/10/2007 to 24/1/2013	2.44	700,000	-	-	-	700,000
	19/6/2008	19/6/2010 to 19/6/2018	0.2316	500,000 ⁽³⁾	-	-	-	500,000 ⁽³⁾
	15/6/2009	15/6/2011 to 14/6/2019	0.73	-	2,000,000 ⁽³⁾	-	-	2,000,000 ⁽³⁾
David Tsoi	15/6/2009	15/6/2011 to 14/6/2019	0.73	-	750,000 ⁽³⁾	-	-	750,000 ⁽³⁾
Lo Chi Kit	15/6/2009	15/6/2011 to 14/6/2019	0.73	-	600,000 ⁽³⁾	-	-	600,000 ⁽³⁾
Tam Hang Chuen	15/6/2009	15/6/2011 to 14/6/2019	0.73	-	100,000 ⁽³⁾	-	-	100,000 ⁽³⁾
Donald O Downing	19/6/2008	19/6/2010 to 19/6/2018	0.2316	350,000 ⁽³⁾	-	-	-	350,000 ⁽³⁾
	15/6/2009	15/6/2011 to 14/6/2019	0.73	-	2,000,000 ⁽³⁾	-	-	2,000,000 ⁽³⁾
Poon Lai Yin Michael	19/6/2008	19/6/2010 to 19/6/2018	0.2316	500,000 ⁽³⁾	-	-	-	500,000 ⁽³⁾
	15/6/2009	15/6/2011 to 14/6/2019	0.73	-	1,000,000 ⁽³⁾	-	-	1,000,000 ⁽³⁾
				21,897,200	8,450,000	-	-	30,347,200



Name or category of participants	Date of grant (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Exercise price per share (HK\$)	Number of Share Options				
				As at 1 January 2009	Granted during the nine-month period	Lapsed/cancelled during the nine-month period	Exercised during the nine-month period	As at 30 September 2009
Other employees:								
	26/4/2007	26/4/2007 to 24/1/2013	0.579 ⁽²⁾	120,000 ⁽²⁾	-	-	(80,000) ⁽²⁾	40,000 ⁽²⁾
	19/6/2008	19/6/2010 to 19/6/2018	0.2316	8,600,000 ⁽³⁾	-	-	-	8,600,000 ⁽³⁾
	15/6/2009	15/6/2011 to 14/6/2019	0.73	-	4,295,000 ⁽³⁾	-	-	4,295,000 ⁽³⁾
				8,720,000	4,295,000	-	(80,000)	12,935,000
Others:								
In aggregate	18/1/2007	18/1/2007 to 24/1/2013	0.0635 ⁽¹⁾	1,000,000 ⁽¹⁾	-	-	(1,000,000) ⁽¹⁾	-
	20/3/2007	20/3/2007 to 24/1/2013	0.1125 ⁽¹⁾	16,240,000 ⁽¹⁾	-	-	(400,000) ⁽¹⁾	15,840,000 ⁽¹⁾
	26/4/2007	26/4/2007 to 24/1/2013	0.579 ⁽²⁾	1,040,000 ⁽²⁾	-	(40,000) ⁽²⁾	-	1,000,000 ⁽²⁾
	22/6/2007	22/6/2007 to 24/1/2013	1.365 ⁽²⁾	13,000,000 ⁽²⁾	-	-	-	13,000,000 ⁽²⁾
	29/10/2007	29/10/2007 to 24/1/2013	2.44	23,500,000	-	-	-	23,500,000
	19/6/2008	19/6/2010 to 19/6/2018	0.2316	550,000 ⁽³⁾	-	(50,000) ⁽³⁾	-	500,000 ⁽³⁾
	15/6/2009	15/6/2011 to 14/6/2019	0.73	-	20,000,000 ⁽³⁾	-	-	20,000,000 ⁽³⁾
				55,330,000	20,000,000	(90,000)	(1,400,000)	73,840,000
Total:				85,947,200	32,745,000	(90,000)	(1,480,000)	117,122,200 ⁽⁴⁾
Weighted average exercise price per share (HK\$)				1.020	0.730	0.386	0.105	0.951



Notes:

- (1) The exercise price and number of share options were adjusted upon the first and second subdivisions of shares of the Company which came to effect on 18 April 2007 and 29 August 2007, respectively.
- (2) The exercise price and number of share options were adjusted upon the second subdivision of shares of the Company which came to effect on 29 August 2007.
- (3) 50% of the share options shall be exercised in a period commencing two years from the date of grant and expiring on the tenth anniversary from the date of grant. The balance of 50% of the share options shall be exercised in a period commencing three years from the date of grant and expiring on the tenth anniversary from the date of grant.
- (4) As at 30 September 2009, the Company had 117,122,200 (31 December 2008: 85,847,200) share options outstanding under the Share Option Scheme, which represented approximately 5.01% (31 December 2008: 3.67%) of the Company's shares in issue on that date.
- (5) During the nine-month period ended 30 September 2009, a total of 32,745,000 share options were granted on 15 June 2009. The closing price of the Company's shares immediately before the date on which the aforesaid share options were granted was HK\$0.77 per share.



2. Share Option Scheme of TWE

On 8 April 2009, TWE adopted a share option scheme (“**TWE Scheme**”) which was approved by the Company’s shareholders in its annual general meeting held on 20 April 2009. As at 30 September 2009, no share options were granted under the TWE Scheme.

Prior to the adoption of the TWE Scheme, pursuant to the articles of TWE, a total of 12,850,000 incentive stock options (“**TWE Options**”) were granted by TWE to certain of its directors and consultants to subscribe for common shares of TWE on 27 August 2008. Details of which as at 30 September 2009 were as follows:

Name or category of participants	Date of grant (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Exercise price per share (C\$)	Number of TWE Options				As at 30 September 2009
				As at 1 January 2009	Granted during the nine-month period	Lapsed/ cancelled during the nine-month period	Exercised during the nine-month period	
Directors, chief executives, management shareholders or substantial shareholders or their respective associates:								
Arthur Ross Gorrell	27/8/2008	27/8/2008 to 27/8/2011	0.03	3,000,000	-	-	-	3,000,000
Donald O Downing	27/8/2008	27/8/2008 to 27/8/2011	0.03	3,000,000	-	-	-	3,000,000
Others:								
In aggregate	27/8/2008	27/8/2008 to 27/8/2011	0.03	6,850,000	-	-	-	6,850,000
Total:				12,850,000	-	-	-	12,850,000



PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the period under review.

COMPETING BUSINESS AND CONFLICTS OF INTEREST

During the nine months ended 30 September 2009, Mr. Chan Wing Him Kenny, an executive Director and management shareholder of the Company, is a director and co-chairman of Petromin whilst Dr. Arthur Ross Gorrell, an executive Director, is a director, the president, co-chairman and chief executive officer of Petromin. As at 30 September 2009, Mr. Chan Wing Him Kenny directly and indirectly held 1,615,177 stock options entitling him to subscribe for 1,615,177 common shares in Petromin. Dr. Arthur Ross Gorrell held 2,243,193 common shares and 1,021,000 stock options entitling him to subscribe for 1,021,000 common shares in Petromin. Mr. Lo Chi Kit, an independent non-executive Director, held 262,500 common shares in Petromin.

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

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

AUDIT COMMITTEE

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



The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Group's unaudited results for the nine months ended 30 September 2009 have been reviewed by the 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.

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

Hong Kong, 9 November 2009

As at the date of this report, the Directors are:

Executive Directors

Mr. Chan Wing Him Kenny
Dr. Arthur Ross Gorrell

Independent non-executive Directors

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