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If you are in doubt as to any aspect of this circular, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Pearl Oriental Innovation Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed dealer, or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

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東 方 明 珠 創 業 有 限 公 司*
Pearl Oriental Innovation Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

(1) VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION
(2) SPECIFIC MANDATE TO ISSUE NEW SHARES

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders

Hercules

Hercules Capital Limited

A letter from the Board is set out on pages 6 to 35 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders in connection with the Acquisition is set out on page 36 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition is set out on pages 37 to 56 of this circular.

A notice convening the SGM to be held on at Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong at 4:30 p.m. on Tuesday, 8 June 2010 is set out on pages 260 to 261 of this circular. Whether or not you intend to attend the SGM in person, you are strongly urged to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon, and to lodge them with the branch share registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

* *For identification purposes only*

24 May 2010

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"Acquisition"	the acquisition of the entire issued share capital of Oasis and in turn the Ownership Interest by the Company from the Vendors comprising the Phase 1 Acquisition and the Phase 2 Acquisition pursuant to the terms and conditions of the Agreement as supplemented by the Supplemental Agreement and the Further Supplemental Agreement
"Agreement"	the agreement dated 9 January 2010 entered into among the Company and the Vendors in relation to the Acquisition
"Announcement"	the Company's announcement dated 25 January 2010 regarding the Acquisition
"Areas"	certain acreage in Township 9 South – Range 24 East, Uintah County, Utah, USA
"Ascenda Cachet"	Ascenda Cachet CPA Limited (formerly known as Cachet Certified Public Accountants Limited), certified public accountants in Hong Kong
"Bcf"	billion cubic feet
"BMI"	BMI Appraisals Limited, an independent valuer
"BLM"	Bureau of Land Management of the USA
"Board"	the board of Directors
"CAPEX"	capital expenditure
"Company" or "Pearl Oriental"	Pearl Oriental Innovation Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on main board of the Stock Exchange
"Completion"	completion of the Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration payable in respect of the Acquisition pursuant to the Agreement comprising the Phase 1 Consideration and the Phase 2 Consideration
"Consideration Shares"	918,460,000 new Shares to be issued to the Vendors or their nominees as part of the Consideration for the Acquisition pursuant to the Agreement comprising the Phase 1 Consideration Shares and the Phase 2 Consideration Shares
"Director(s)"	director(s) of the board of the Company
"DOGM"	Division of Oil, Gas and Mining, the State of Utah

"Dr. Lew"	Dr. Lew Mon Hung, the Deputy Chairman and executive Director of the Company
"EIA"	Energy Information Administration of USA
"First 14 Wells"	7 existing wells and 7 new wells to be redeveloped and drilled respectively on the Utah Gas and Oil Field
"Fulbright"	Fulbright & Jaworski LLP, USA legal advisers of the Company
"Further Supplemental Agreement"	a further supplemental agreement entered into among the Vendors and the Company on 10 May 2010 to amend the terms and Conditions of the Agreement
"Get Wealthy"	Get Wealthy Investments Limited
"Group"	the Company and its subsidiaries
"HAAS", "Technical Advisor" or "HPESI"	Haas Petroleum Engineering Services, Inc
"Hercules" or "Independent Financial Adviser"	Hercules Capital Limited, a licenced corporation for carrying out type 6 regulated activity (advising on corporate finance) under the SFO (Cap. 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IBG"	IB Group Trading Limited
"Independent Board Committee"	an independent board committee of the Board comprising all the independent non-executive Directors, namely Mr. Yu Jianmeng, Mr. Fung Hing Chiu, Cyril and Mr. Lam Ka Wai, Graham who did not have material interests in the Acquisition
"Independent Shareholders"	Shareholders (Other than the Vendors, Mr. Wong, Dr. Lew and their respective concert parties and associates and those Shareholders who are involved in, or interested in the Acquisition) who are not required to abstain from voting on the resolutions to be proposed at the SGM to approve the Acquisition under the Listing Rules
"JV Partner"	Thurston Energy, LLC, a limited liability company incorporated in the USA which is owned by Mr. Ralph Curton and his partners

"Latest Practicable Date"	19 May 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Last Trading Day"	8 January 2010, being the last full trading day for the Shares immediately before the date of the Announcement
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mcf"	thousand cubic feet
"Mr. Wong"	Mr. Wong Kwan, Chairman and Chief Executive of the Company and an executive Director
"Net Operating Income"	Total revenue from gas and oil production less net tax severance, net tax ad valorem, royalties and operating expenses for the wells in the Utah Gas and Oil Field
"Oasis"	Festive Oasis Limited, a company incorporated in the British Virgin Islands
"Operating Company"	An operating company which will be responsible for the exploration, development and drillings of the existing and new wells and production in the Utah Gas and Oil Field
"Orient Day"	Orient Day Developments Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly owned by Mr. Wong
"Ownership Interest"	ownership interest in respect of oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field
"Phase 1 Acquisition"	acquisition of 100% equity interest of Oasis which will in turn own 70% of the Ownership Interest pursuant to the terms and conditions of the Agreement as supplemented by the Supplemental Agreement and the Further Supplemental Agreement
"Phase 2 Acquisition"	the acquisition of the remaining 30% Ownership Interest
"PRC"	The People's Republic of China
"PRMS"	the 2007 Petroleum Resources Management System approved by the Society of Petroleum Engineers
"Proposed Issue"	the proposed issue and allotment of the Consideration Shares

"Sale Shares"	the 1,000 shares of par value of US$1.0 each in the share capital of Oasis, representing the entire issued share capital of Oasis which shall include Dr. Lew's Equitable Interest
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
"SGM"	A special general meeting of the Company to be convened to, amongst other things, consider and approve the Acquisition; and the Proposed Issue
"Share(s)"	ordinary share(s) of HK$0.1 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shiny One (BVI)"	Shiny One Limited, a company incorporated in the British Virgin Islands which is a direct wholly owned subsidiary of Oasis
"Shiny One USA"	Shiny One USA, LLC, a limited liability company incorporated in USA which is an indirectly and wholly owned subsidiary of Oasis
"Specific Mandate"	A specific mandate to be sought from the Independent Shareholders at the SGM for the Proposed Issue
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	A supplemental agreement entered into among the Vendors and the Company on 18 March 2010 to amend the terms and Conditions of the Agreement
"Target Group"	Oasis and all its subsidiaries to be acquired by the Company pursuant to the Agreement
"Technical Report"	the independent technical expert report prepared by HAAS on the Utah Gas and Oil Field as set out in Appendix VIII of this circular
"Utah Gas and Oil Field"	Certain natural gas and oilfield located in the Areas in the Uinta Basin, Uintah County, Utah, USA
"US$"	United States dollars, the lawful currency of the United States of America
"USA"	the United States of America
"Veda Capital"	Veda Capital Limited, a licenced corporation for carrying out type 6 regulated activity (advising on corporate finance) under the SFO (Cap. 571 of the Laws of Hong Kong)

"Vendors"	Charcon and Marvel
"%"	per cent

For the purpose of this circular and for reference only, unless otherwise specified exchange of US$1.00 to HK$7.80 is adopted.

東方明珠創業有限公司*
Pearl Oriental Innovation Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

Executive directors:
Wong Yuk Kwan (alias: Wong Kwan)
Lew Mon Hung
Cheung Kwok Yu
Zhou Li Yang
Zheng Yingsheng
Johnny Yuen

Independent non-executive directors:
Yu Jianmeng
Fung Hing Chiu, Cyril
Lam Ka Wai, Graham

Registered office:
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2 Church Street
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Bermuda

Head office and principal place of business in Hong Kong:
Suite 1908, 19th Floor
9 Queen's Road Central
Hong Kong

24 May 2010

To the Shareholders

Dear Sirs,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION (2) SPECIFIC MANDATE TO ISSUE NEW SHARES

The Company has announced that the Company entered into the Agreement with the Vendors on 9 January 2010 in relation to the Acquisition. Details of the Agreement (as supplemented by the Supplemental Agreement and the Further Supplemental Agreement) are set out below.

THE AGREEMENT

Date: 9 January 2010

Parties

(i) the Company, the purchaser;

(ii) the Vendors, Charcon Assets Limited ("**Charcon**") and Marvel Sunlight Limited ("**Marvel**")

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Marvel and its beneficial owners are third parties independent of the Company and its connected persons. Charcon is a company wholly owned by Mr. Wong.

* *For identification purposes only*

The Company has been informed that 15% interest in Oasis will be conditionally transferred from Marvel to Dr. Lew ("**Dr. Lew's Equitable Interest**") prior to Completion at a consideration of US$30 million payable to Marvel by Dr. Lew. Such transfer was merely based on the negotiation and agreement between Marvel and Dr. Lew. Dr. Lew is not yet the legal owner of these 15% interest in Oasis at the Latest Practicable Date.

To the best of the Company's knowledge, Charcon and Marvel are investment holding companies.

Assets to be acquired

Pursuant to the Agreement, the Vendors have conditionally agreed to sell and the Company has conditionally agreed to acquire the Sale Shares, representing the entire issued share capital of Oasis which shall include Dr. Lew's Equitable Interest. After the Completion, Oasis will be a 100% owned subsidiary of the Company.

Ownership Interest in the Utah Gas and Oil Field which has a total net probable and possible natural gas reserve of 454.5 Bcf and oil reserve of 1.86 million barrels was wholly-owned by the JV Partner and would be conditionally transferred to the Target Group by the JV Partner (as agreed by the Vendors and the JV Partner) pursuant to the Agreement.

Phase 1 Acquisition

Consideration

The total consideration for the Phase 1 Acquisition is US$200 million (equivalent to approximately HK$1,560 million) (the "Phase 1 Consideration") which shall be satisfied by the Company as follows:

(i) as to US$50 million (equivalent to approximately HK$390 million) by cash; and

(ii) as to US$150 million (equivalent to approximately HK$1,170 million) by the issue of 847,810,000 Consideration Shares at the price of HK$1.38 per Share.

The Consideration of US$200 million will be paid by the Company as follows:

(a) Upon the signing of the Agreement, the Company has paid to Marvel a sum of US$20 million (equivalent to approximately HK$156 million) in cash as a refundable deposit (the "**Deposit**") for the Acquisition, and upon the date of first completion of the Acquisition (the "**First Completion Date**"), the Vendors shall cause and procure 70% Ownership Interest be transferred to Shiny One USA. The First Completion Date will be on the date falling on which the third business day after all the Conditions Precedent are fulfilled or waived by the Company (as the case may be). As at the Latest Practicable Date, 14.4% of the Ownership Interest has been transferred to the Target Group.

(b) Upon the signing of the Further Supplemental Agreement, the Company has paid Marvel a further refundable deposit of US$30 million (equivalent to approximately HK$234 million) (the "**Further Deposit**") by cash.

(c) On the First Completion Date, the Company will pay Marvel a sum of US$50 million (equivalent to approximately HK$390 million) which will be satisfied by the issue and allotment of 282,600,000 new Consideration Shares to Marvel.

(d) On the First Completion Date, the Company will also pay an aggregate sum of US$100 million, out of which US$30 million (equivalent to approximately HK$234 million) will be satisfied by the issue and allotment of 169,560,000 new Consideration Shares to Dr. Lew and the remaining sum of US$70 million (equivalent to approximately HK$546 million) will be satisfied by the issue and allotment of 395,650,000 new Consideration Shares to Charcon.

Upon completion of the Phase 1 Acquisition, the Company will own 100% interest of Oasis and 70% Ownership Interest. A total of up to 847,810,000 new Shares (the "**Phase 1 Consideration Shares**") will be issued by the Company to the Vendors for the Phase 1 Acquisition. In addition, the amount owing from Oasis to Charcon of approximately HK$4.9 million will be assigned to the Company after completion of the Phase 1 Acquisition, and the consideration for such assignment has been covered by the consideration of US$200 million (equivalent to approximately HK$1,560 million) in the Phase 1 Acquisition.

Phase 2 Acquisition

On or before 12 December 2011, the Company may, at its option, pay the JV Partner an aggregate sum of US$25 million (equivalent to approximately HK$195 million) (the "**Phase 2 Consideration**") for the remaining 30% Ownership Interest to be transferred in Shiny One USA. The said amount of US$25 million (equivalent to approximately HK$195 million) will be paid by cash in full or if the JV Partner elects, will be paid by cash as to US$12.5 million (equivalent to approximately HK$97.5 million) and the remaining sum of US$12.5 million (equivalent to approximately HK$97.5 million) will be satisfied by the issue and allotment of 70,650,000 new Shares at the Price of HK$1.38 per Share (the "**Phase 2 Consideration Shares**") to the JV Partner. The completion date of the Phase 2 Acquisition will be within 14 days after the Company's exercise of its option to proceed with the Phase 2 Acquisition (the "**Final Completion Date**").

After the Final Completion Date, the Company shall own 100% of the Ownership Interest through its then wholly owned subsidiary, Oasis. In such circumstances, the Company and the Vendors (including the JV Partner) shall only share the Net Operating Income from the First 14 Wells, and all the Net Operation Income of any other new wells shall be received by the Company only (details of the share of the Net Operating Income are set out in the sub-section headed "Share of the Net Operating Income").

The Company shall finance the cash portion of the Consideration by its internal resources.

Price per Consideration Share

The price of HK$1.38 per Consideration Share (the "**Price**") represents (i) a premium of approximately 48.39% to the closing price of HK$0.93 per Share as quoted on the Stock Exchange on the Latest Practicable Date; (ii) a discount of approximately 17.9% to the average closing price per Share of approximately HK$1.68 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and (iii) a premium of approximately 4.8% over the average closing price per Share of HK$1.317 as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day.

The Price has been determined and has been negotiated on an arm's length basis between the Vendors and the Company. Given (i) the above discounts/premium as represented by the Price to/over the historical prices of the Shares; (ii) the unaudited net asset value per Share of approximately HK$0.94 as at 30 June 2009; and (iii) the recent upsurge of the price of the Shares, the Directors are of the view that the Price is fair and reasonable.

The Consideration Shares

The Consideration Shares represent (i) approximately 56.05% of the existing issued share capital of the Company of 1,638,783,960 Shares as at the Latest Practicable Date; and (ii) approximately 35.92% of the issued share capital of the Company of 2,557,243,960 Shares as enlarged by the Proposed Issue. There will be no change of control of the Company upon the issue and allotment of the Consideration Shares.

Ranking of Consideration Shares

The Consideration Shares rank pari passu among themselves and with Shares in issue as at the Latest Practicable Date.

Basis in determining the Consideration

The Consideration was determined after arm's length negotiations between the parties.

In determining the Consideration, the Board has obtained a preliminary valuation report on 100% of Ownership Interest prepared by BMI, an independent valuer, and a technical report on the natural gas and petroleum resources prepared on 25 November 2009 by HAAS, a distinguished American petroleum engineering consultant, in which the reserves estimates conformed to the PRMS.

Taking into account, among other things, (i) the preliminary valuation of 100% Ownership Interest of the Utah Gas and Oil Field prepared by BMI of approximately US$500 million (equivalent to approximately HK$3.9 billion). The discount of approximately 55% represented by the Consideration to such indicated valuation. The discount of the Consideration of US$225 million (equivalent to approximately HK$1.755 billion) is now 46.4% to the revised valuation of US$420 million (equivalent to approximately HK$3.276 billion); (ii) the technical report issued by HAAS on 25 November 2009, confirming that the Utah Gas and Oil Field has a total net probable and possible natural gas reserves of 454.5 Bcf and oil reserves of 1.86 million barrels; and (iii) the expected total exploitation value of the Utah Gas and Oil Field of US$2.5 billion (equivalent to approximately HK$19.5 billion) with reference to the international market price of natural gas and oil at the end of December 2009, the Directors consider that the Consideration is fair and reasonable.

In addition, the Directors are also of the view that the acquisition of the Sale Shares by the Company which shall include Dr. Lew's Equitable Interest (subsequent to the transfer of Dr. Lew's Equitable Interest to Dr. Lew from Marvel) is fair and reasonable and in the interests of the Shareholders as a whole since the consideration of US$30 million (equivalent to approximately HK$234 million) payable to Marvel by Dr. Lew equals to part of the Consideration (i.e. US$30 million (equivalent to approximately HK$234 million)) to be received by Dr. Lew under the acquisition of the Sale Shares by the Company.

As advised by the Vendors, the original acquisition cost incurred by Charcon on 35% equity interest of Oasis was US$70 million (equivalent to approximately HK$546 million) while Dr. Lew's original acquisition cost payable to Marvel was US$30 million (equivalent to approximately HK$234 million). Therefore, the consideration payable to Charcon and Dr. Lew for the Acquisition are equal to their respective costs.

Conditions precedent

Completion of the Acquisition is subject to the following conditions precedent (the "**Conditions**"):

(i) the passing of the necessary resolution(s) by the Independent Shareholders in a general meeting to approve the Agreement, the Proposed Issue and the transactions contemplated thereunder and the implementation thereof (including but not limited to, the acquisition of the Sale Share by the Company);

(ii) the Listing Committee granting the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange;

(iii) the Company being satisfied with the results of its due diligence review and investigation on Oasis and the Utah Gas and Oil Field including the legal title thereof;

(iv) the approval required to be obtained from the Committee on Foreign Investment in the United States in respect of the Company's acquisition of Ownership Interest in the Utah Gas and Oil Field; and

(v) the Company having obtained a legal opinion issued by USA legal advisers acceptable to the Company in respect of the due diligence on and the legal title of the Utah Gas and Oil Field confirming that it is in both form and substance and in all respects satisfactory to the Company.

The Company may at its absolute discretion at any time waive the above Conditions (iii) to (v) by written notice to the Vendors.

If the conditions above are not fulfilled or waived (as the case may be) on or before 15 June 2010 or such other date as the Company and the Vendors may agree in writing and/or the conditions (iii) to (v) do not remain fulfilled (and is not waived by the Company or, where applicable, the Vendors) on the date of Completion, all rights, obligations and liabilities of the parties under the Agreement shall cease and determine and none of the parties shall have any claim against the other save and except any antecedent breach, and the Vendors shall refund the Deposit and the Further Deposit to the Company within 3 days after the Company has given a written notice to the Vendors to cancel the Acquisition.

The transfer of total Ownership Interest to Shiny One USA is not one of the conditions precedent.

As at the Latest Practicable Date, condition (iv) as set out above has been fulfilled.

Completion

Completion shall take place on the date falling on the third business day after the fulfillment or, where applicable, waiver of the relevant conditions precedent.

Share of the Net Operating Income

The Company has agreed to bear the costs (the "**Development Costs**") of re-development of 7 existing wells and the drillings of 7 new wells (together, the "**First 14 Wells**") in the Utah Gas and Oil Field in the aggregate sum of US$15 million (equivalent to approximately HK$117 million) on the First Completion Date. The Company and the Vendors (including the JV Partner) will share the Net Operating Income from the First 14 Wells at the ratio of 70:30 till end of economic life of these wells.

The Company shall have the right to provide additional funding to develop more new wells in the Utah Gas and Oil Field, if the Vendors (including the JV Partner) cannot contribute additional funding, then the Company and the Vendors (including the JV Partner) will share the Net Operating Income from these additional new wells at the ratio of 90:10 in respect of the remaining 346 wells in the Utah Gas and Oil Field. The Company shall comply with the Listing Rules requirements (if any) arising from the provision of the aforesaid funding. If the Vendors (including the JV Partners) can contribute additional funding to develop additional new wells, then the Net Operating Income Sharing ratio will be 70:30 in respect of the remaining 346 wells in the Utah Gas and Oil Field.

After the Final Completion Date, the Company shall own 100% of the Ownership Interest through its then wholly owned subsidiary, Oasis. In such circumstances, the Company and the Vendors (including the JV Partner) shall only share the Net Operating Income from the First 14 Wells, and all the Net Operation Income of any other new wells shall be received by the Company only.

The JV Partner does not hold any interests in Oasis nor have any relationship with the Company, its connected persons and its associates except that the JV Partner has business relationship (in relation to the Acquisition as it owns interests in the Utah Gas and Oil Field) with the Vendors.

To the best of the Company's knowledge, the JV Partner is a company engaged in oil and gas investments, exploration and exploitation in the USA.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the JV Partner and its ultimate beneficial owners are independent and are not connected persons of the Company and its associates.

The Company shall finance the Development Costs by its internal resources.

Other Terms

An operating company (the "**Operating Company**") will be responsible for the exploration, development and drillings of the existing and new wells and production in the Utah Gas and Oil Field. The Operating Company will have experienced contractors, professional consultants and staff up to 15 persons in total, and the Company understands that, these professional manpower are readily available for the Operating Company.

Mr. William A. Ryan is Chief Engineer and Project Operations Manager of the Operating Company. Mr. Ryan has over 35 years experience in drilling, completing, and operating wells and projects in the Uinta and Piceance Basins (Rocky Mountains). Mr. Ryan has involved in all aspects of the oil and gas development. Projects include drilling, completion, production, pipeline design, compression, condensate stabilization, both oil and gas production equipment design. Additional projects include detailed development of "proposed action" used in Environmental Impact Statements (EIS).He has directed the permitting of over 250 wells in a single year. Permits included drilling design, pipelines, roads, water disposal, and impacts to soil, air, water, wildlife, plants, and historic and archeological resources. Project areas include Wyoming, Colorado and Utah. Mr. Ryan has a bachelor degree in Geological Engineering from University of Minnesota.

After the First Completion Date and the Group's acquisition of 70% Ownership Interest, the Group shall have the right to appoint 3 (three) of the total 5 (five) directors of the Operating Company, its board of directors will decide the administration and finance matters of exploitation in the Utah Gas and Oil Field.

The JV Partner will participate in the operations of the Operating Company and will supervise that the day-to-day activities including exploration and exploitation of the Utah Gas and Oil Field.

Charcon is an investment holding company wholly owned by Mr. Wong.

Marvel is an investment holding company. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Marvel and its beneficial owners are third parties independent of the Company and its connected persons.

There is no present intention of any change in Directors as a result of the Acquisition.

INFORMATION ON OASIS

Oasis was incorporated in the British Virgin Islands which is an investment holding company. At the Latest Practicable Date, the Target Group has not yet engaged in exploration or exploitation works. As at the date of the Agreement, Oasis was owned as to 65% by Marvel, and 35% by Charcon. The Company has been informed that 15% interest in Oasis may be conditionally transferred from Marvel to Dr. Lew prior to Completion at a consideration of US$30 million (equivalent to approximately HK$234 million) payable to Marvel.

After completion of the Agreement, the Target Group will be principally engaged in the exploration, exploitation and production of natural gas and petroleum in the Areas. According to the accountant's report of the Target Group as contained under Appendix II to this circular, it recorded a loss before and after taxation of approximately HK$1,042,000 during the first financial period from 29 September 2009 (date of incorporation) and up to 31 December 2009, representing mainly the legal and professional fee incurred by the Target Group. As at 31 December 2009, the net liabilities of the Target

Group amounted to HK$1,034,541. After the Final Completion Date, the Company shall own 100% of the Ownership Interest through its then wholly owned subsidiary, Oasis. The valuation of the Utah Gas and Oilfield prepared by BMI as set out in the Appendix IX is US$420 million (equivalent to approximately HK$3.276 billion) (the "Valuation").

The forecasts, upon which the Valuation has been made, have been made by the Directors after due and careful enquiry.

Information on the Utah Gas and Oil Field

The Utah Gas and Oil Field is located in Uinta Basin gas and oilfield area, Uintah County, Utah, United States. It covers an area of around 3,692 acres. Haas Petroleum Engineering Services, Inc, a distinguished American petroleum engineering consultant, has issued the Technical Report, confirming that this Utah Gas and Oilfield project has a total net Probable & Possible natural gas reserves of 454.5 Bcf and oil reserves of 1.86 million barrels. The Company has an intention to drill, explore and exploit 360 wells in the Utah Gas and Oil Field in coming years after Completion of the Acquisition.

The Company has been advised by HAAS that after the stimulation work on each of the seven shut-in wells has been performed, completion intervals and production data will be reviewed. If the expected results are obtained, proved reserves will be assigned to each completed well for the zones included in the work. If Halliburton's SwiftLook log analysis model is confirmed with production testing, the eight direct and diagonal offset 20 acre well locations will also be reclassified as Proved Undeveloped reserves. This analysis will be done on a well by well basis for each of the seven Shut In wells.

A similar method will be applied to the drilling locations. Following completion and testing for the new wells, proved reserves may be assigned to the producing well for the completed intervals. If the expected results are obtained, proved undeveloped reserves may be assigned for up to eight direct and diagonal offset locations for the tested intervals. This analysis will be done on a well by well basis and applied to each completed new well developed of the initial program. Proved reserve calculations in the possible category will be based on average thickness or quality of the net pay once the new SwiftLook analysis is received on the new wells.

Further, the Company has been advised by Halliburton the development plan proposed by the Company will validate the initial assessment of possible resources identified in the Halliburton SwiftLook analysis evaluation of each of the existing wells to "PUD" or proved undeveloped reserves for the locations around these wells by utilizing modern hydraulic fracture stimulation techniques in the existing wellbores and the drilling of seven new wells. Traditional practices for proving acreage in the Utah Gas and Oil Field area has been based on the 40-acre blocks surrounding each well tested. Thus each well would be used to validate an additional 320 acres. Accounting for lease boundaries and "shared" or common 40-acre blocks, this means that up to 67% of 3,690 acres in the Utah Gas and Oil Field can be upgraded to proved status.

Uintah County is the most active area in the state of Utah in drilling for oil and gas, and in fact around 2,500 new wells have been spudded since 2006 according to statistics of DOGM, the State of Utah published in its website (http://oilgas.ogm.utah.gov).

It is planned to drill around 40 new wells per annum in average in coming years but such plan is subject to the actual development schedule and situation of the Utah Gas and Oil Field.

The Utah Gas and Oil Field is located in the quality production area of Uinta Basin. It is surrounded by the renowned U.S. oil and gas exploration and production companies, including Anadarko Petroleum Corporation ("**Anadarko**") (NYSE: APC, market capitalization of US$31.5 billion (equivalent to approximately HK$245.7 billion)), Questar Corp. (NYSE: STR, market capitalization of US$7.46 billion (equivalent to approximately HK$58.19 billion)) and other oil and gas exploration and production enterprises, which have successfully recorded excellent exploitation and operating results of oil and natural gas in the region for many years.

There is an existing main natural gas pipeline across the Areas, therefore the natural gas to be produced in the Utah Gas and Oil Field can be sold soon after the commencement of the production of natural gas in the Utah Gas and Oil Field.

In accordance to the U.S. well-known and one of the world's largest technical engineering companies, Halliburton, (NYSE: HAL, market capitalization of US$27.3 billion (equivalent to approximately HK$212.94 billion), Mr. Dick Cheney, former U.S. Vice President was the former Chairman and CEO of Halliburton) has provided the entire oil and gas wells exploitation and distribution status in 1980 and 2007, which showed clearly the Utah Gas and Oil Field is at a ready-to-go stage with huge earning prospect.

Management of the Company has visited the Utah Gas and Oil Field and has also discussed with Halliburton and Anadarko on the prospects of the future gas and oil production and cooperation among each others. Halliburton and Anadarko will continue to give their marketing and professional services to the Utah Gas and Oil Field project, and Management has great confidence in the future economic benefits of our investment.

New Management Team

Ralph Curton Chief Operating Officer

Mr. Ralph Curton, will be appointed as the Chief Operating Officer (COO) of Pearl Oriental. Mr. Curton has 40 years of experiences in the operation and management in the oil and natural gas industry. In the 70's, Mr. Curton invested 50,000 productive acres in oil and natural gas enterprise in East Texas and Louisiana, and had successfully developed more than 300 oil and gas wells.

In 2004 Curton acquired 1200 acres in oil leases in the Rangely oil field located in Rangely, Colorado, USA. Between 1985 and 2004 Curton acquired leases and drilled wells in Michigan, Oklahoma and Louisiana with mixed results. Curton eventually liquidated all of those non-core assets and consolidated his position in East Texas.

Mr. Curton currently serves as a Director on the Board of EnergyNet.com, the largest Internet auction platform for oil and gas properties in the world. EnergyNet is a private company based in Amarillo, Texas. He attended the University of Washington in Seattle, Washington and Baylor University in Waco, Texas, where he majored in finance and business administration.

Over the years, Mr. Curton has established close relationships with Halliburton and Anadarko. Upon completion of the Acquisition, Halliburton will continue to provide world-class professional technical and engineering services to the Utah Gas and Oil Field. As advised by Mr. Curton, Anadarko has agreed to continue to purchase all the natural gas produced by the Utah Gas and Oil Field. The Management Team has strong confidence that this Utah gas and oilfield project can create long term stable income. A Gas Purchase Agreement has been signed with Anadarko Group which has a pipeline

running through our gas field acreages and they like to fill their capacity. It is intended that all gas production will be sold to Anadarko and which is a common upstream industry practice in natural gas production, selling their raw gas from wellhead to midstream companies having pipelines, gathering stations, processing facilities and marketing with agreeable terms including benchmark prices, sale volumes, number of years and services fees etc.

Bryan Yam Chief Technical Officer

Mr. Yam has been appointed as the Chief Technical Officer (CTO) of Pearl Oriental, to be responsible for Pearl Oriental's development of energy and resources businesses and technical supervision. Mr. Yam has a Master degree in Aerospace Engineering and a Bachelor degree in Mechanical Engineering. He is a member of Society of Petroleum Engineers, Hong Kong Institute of Engineers and Professional Engineer registered in the State of Texas (inactive) respectively.

Mr. Yam has more than 30 years of extensive management experience in the oil and natural gas sector. He has held senior management positions in the U.S. prestigious petroleum and technology companies such as Hughes Offshore, NL Rig Equipment and Kerr-McGee Corporation etc, to render diversified professional services including operation management, design co-ordination and international business expansion of natural gas and oilfield projects for various states in the U.S., Gulf of Mexico, North Sea, Asia Pacific and Australia etc.

Before joining Pearl Oriental, Mr. Yam was the Deputy JMC Chairman and Operation Manager for a famous US natural gas company, Anadarko's South China Sea deep water gas and oilfield project, which successfully exploited oil reserve of 150 million barrels. He is also the team member of the joint venture of China National Offshore Oil Corporation and Anadarko for Bohai Bay oilfield project.

Current status of Exploitation

The Operating Company will use around US$2.4 million (equivalent to approximately HK$18.72 million) out of the Development Costs to rework the seven (7) existing wells in the Utah Gas and Oil Field, and to the best of the Company's knowledge that, within three (3) months after the commencement of the works, there will be natural gas production. Also, the Operating Company will spend the remaining US$12.6 million (equivalent to approximately HK$98.28 million) of the Development Costs in total to drill seven (7) new wells on the Utah Gas and Oil Field. Currently, there is no production in the Utah Gas and Oil Field.

Standard modern day drilling and completion techniques for natural gas sand formations will be applied. Approximately 8,000 to 9,000 feet wells will be drilled with multiple known sand zones requiring fracture stimulation. Gas and oil will be produced and measured for sale at the well pad/ location and represents a "single production facility".

A standard single natural gas production facility is comprised of a wellhead, separation facility, two tanks, and two gas measurement meters. Some oil or condensate production is also expected. However, in relative terms oil production will represent only 1 barrel of oil or less per 250 Mcf of gas produced over the life of a typical well (derived from "Haas Technical Report" production estimates).

Gas and oil "raw" products go through a three-phase separator unit, which separates gas, oil, and water. The grade of gas (gas quality) is estimated to be 1100+ Btu and the oil is of light condensate grade. Both oil and gas in its raw form requires refining or processing into by-products before actual use. The intended "downstream" application of gas and oil sales is to provide any number of energy related by-products such as fuel, electricity, or power to the end consumer.

Future Development of the Utah Gas and Oil Field

The Company understands that it has been presented to the DOGM in the State of Utah, geological and engineering data in support of 10-acre density (well spacing) development. The Areas were included in this case presentation. The outcome of this case was approved by the State of Utah to allow for drilling on 10-acre well spacing in 2009. The geological nature of the target intervals, which is verified by 1000 feet of actual well examples in the Greater Natural Buttes field area, provides well-founded evidence to support the concept that gas production potential is dispersed throughout the entire field. Furthermore, a 10-acre density pattern does not significantly impact the overall productivity of each well. This ruling provides Shiny One with a total upside developmental potential of ~360 well locations (3,692 acres/10 acre spacing), greatly increasing the overall recoverable reserve potential of the Utah Gas and Oil Field.

It is anticipated that the estimated net natural gas production volume for the First 14 Wells for years 2010, 2011 and 2012 will be approximately 2.09 Bcf, 1.77 Bcf and 1.18 Bcf respectively, and the estimated net oil production volume for the First 14 Wells for years 2010, 2011 and 2012 will be approximately 24,000 barrels, 13,000 barrels and 7,000 barrels respectively. Standard gas and oil production normally will decline after three (3) to five (5) years and may require re-work. Natural gas wells after initial fracture produce gas in a much higher production rates. Production rate will normally stabilize after time and may or will start decline after sometime due to pressure decline clogging of the pores and possible water production etc. which may require rework pending on economics.

In anticipation of the work to be performed in 2011, it is planned to start preparatory work on 37 new applications for permit to drill ("APDs") in June 2010. These new APDs will be submitted to both the DOGM and BLM agencies for approval in June 2010 through August 2010. It is expected to receive approval for these new drilling permits at the end of 2010, upon completing 2010 development plan. In the 1st quarter of 2011, there will be a total of 40 new drilling permits (3 APDs already approved in July 2010 + 37 submitted APDs).

The initial phase of the 2010 exploitation schedule involves a 2.5 months work-over and re-completion program of up to seven (7) existing wells. The second phase of the exploitation schedule involves a 6 to 6.5 months new well drilling and completion program of seven (7) new wells. The planned start of actual fieldwork for the initial work-over portion of our exploitation schedule begins in late May or early June and ends in August 2010. The planned start of the seven new well development program begins in June 2010 and ends by November 2010.

The 2011 "60 well development program" is planned to start in the 3rd or 4th week of May 2011, when temperatures have warmed up enough to melt much of the snow cover. In order to meet the scheduling demands of the 2011 development program, the Operating Company will require the use of multiple drilling rigs.

It is planned to drill around 40 new wells per annum in average in coming years but such plan is subject to the actual development schedule and situation of the Utah Gas and Oil Field. Save as and except for the development plans set out above, there is no concrete development plan for the 360 wells.

Expected Capital Expenditure, Budget, and Financing Schedule:

The total budget for re-working the seven (7) existing wells and for drilling and completing seven (7) new wells is US$2.4 million (equivalent to approximately HK$18.72 million) and US$12.6 million (equivalent to approximately HK$98.28 million) respectively for the year ending 31 December 2010. The expected CAPEX and related budget for all work and material costs necessary to complete the development program in 2010 is equal to the sum of each "Authority for Expenditure" ("**AFE**") required for each production facility (well). The AFE line items and details every expense associated with creating a production ready facility.

The total estimated or expected CAPEX sum of all AFEs in the initial re-work phase of the existing wells is US$2,318,121.00 (equivalent to approximately HK$18,081,344) or just under the US$2.4 million (equivalent to approximately HK$18.72 million) budget.

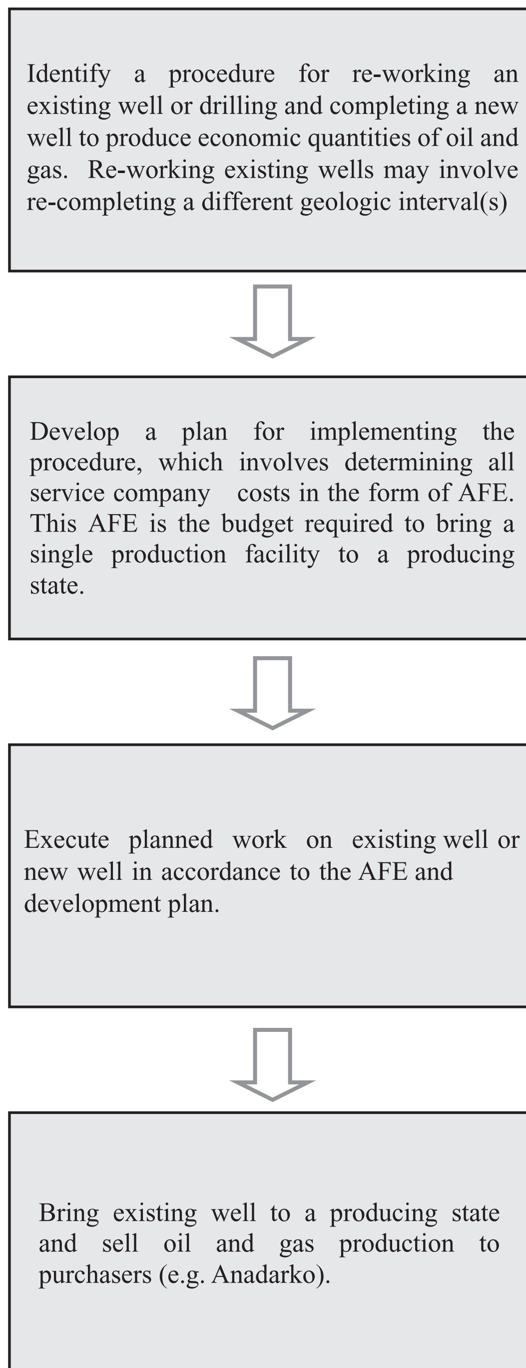
The current estimated costs for the remaining 346 wells to be drilled in the Utah Gas and Oil Field is approximately US$1.35 million (equivalent to approximately HK$10.53 million) per well which is based on the latest actual quotations from drilling and services companies.

"Seven New Well Program" CAPEX:

The AFE for drilling and completing a new well under the First 14 Wells is US$1,832,094.00 (equivalent to approximately HK$14,290,333) and is based upon an internal audit of costs. The total estimated CAPEX for this program is US$12,824,658.00 (equivalent to approximately HK$100,032,332), which is just over the budget of US$12.6 million (equivalent to approximately HK$98.28 million). The Company does not see this as problematic. Production revenue garnered from gas sales of the re-work program and initial wells of the new well program, along with any potentially unused funds from the re-work program are expected to satisfy the budget in 2010.

Revenue Model:

The revenue model for the oil and gas exploitation and production business is simple as there is typically only one type of revenue stream, the sale of oil and gas production:



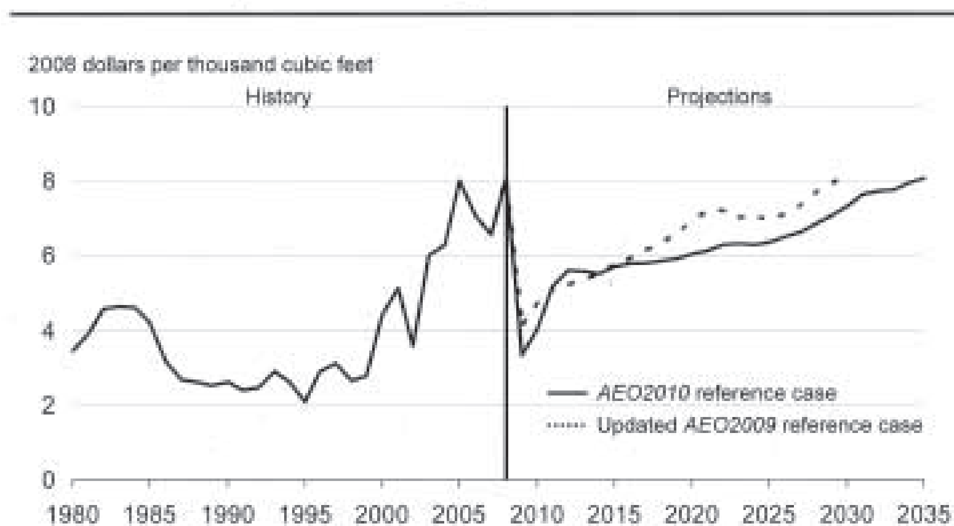
Cost components

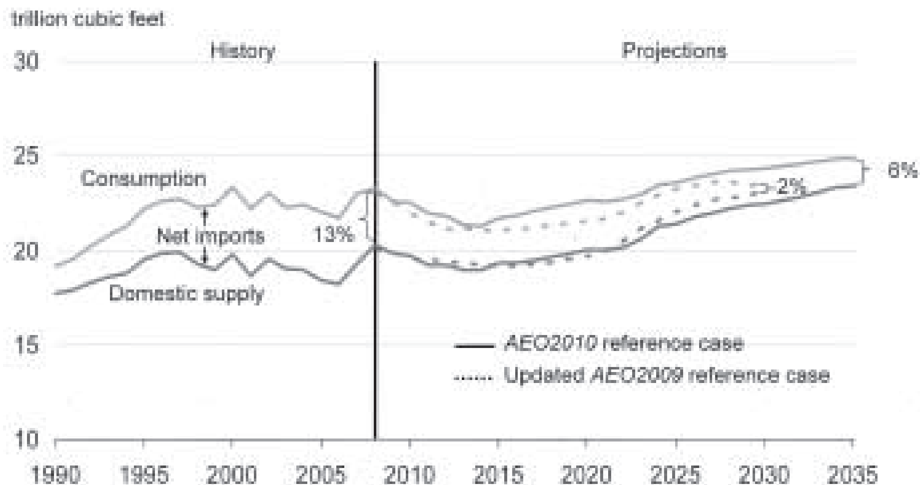
Other future cost components for production and sale of gas are pumping costs, chemical treatment of wells, and disposal of produced water, road maintenance, and snow removal. These costs are categorized as lease operating or monthly operating expenses and are a normal part of the day-to-day and month-to-month operations.

INDUSTRY OVERVIEW

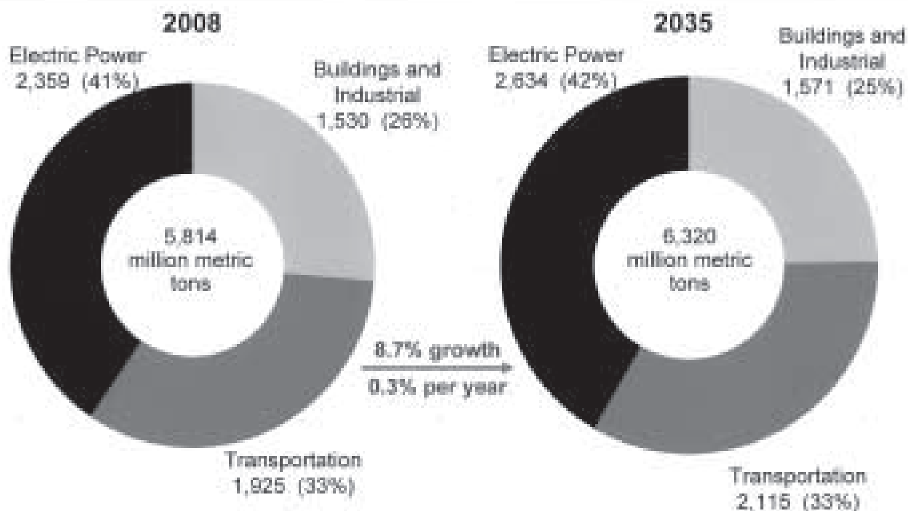
Natural gas, a gaseous fossil fuel containing mostly methane (CH_4), is the cleanest burning fossil fuel with much lower carbon dioxide (CO_2) emissions and fewer pollutants than coal and oil and is a high-demand premium fuel. The United State Federal Government projects that the use of natural gas will increase 8.7% in the next two decades, with electric generation and industrial use leading the way.

Below are a price, gas supply and energy demand by sector projection from United States Energy Information Administration (the "**EIA**") Annual Energy Outlook 2010 (the "AEO") from current around US$5.20 (equivalent to approximately HK$40.56) to around US$8.06 (equivalent to approximately HK$62.87) per thousand cubic feet (Mcf) (2008 dollars) in 2035.





Richard Newell, SAIS, December 14, 2009 Source: *Annual Energy Outlook 2010*



Richard Newell, SAIS, December 14, 2009 Source: *Annual Energy Outlook 2010*

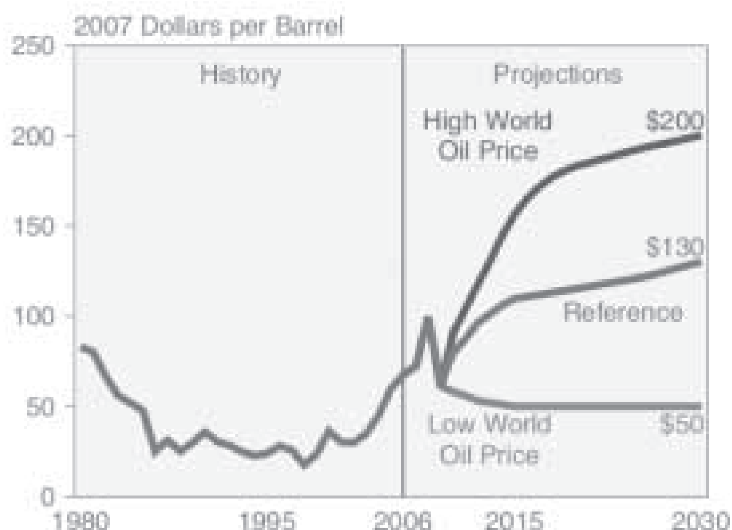
Furthermore shale gas (Utah natural gas) has been the primary source of growth in United States to meet consumption growth and lower import needs.

Total electricity consumption, including both purchases from electric power producers and on-site generation, increases at an average annual rate of 1.0% from 2008 to 2035 in the AEO 2010 reference area. Natural gas plays a larger role in the AEO 2010 reference case became growing concerns about green house gas GHG emissions make it more attractive than coal and is cheaper to build than new-renewable or nuclear plants.

World energy market is gaining importance as a result of constantly increasing demand for oil & natural gas over the period, which resulted in expediting exploration and production activities all over the world. Oil and natural gas resources across the globe are not evenly distributed, with the depth and geological characteristics of the reserves differing greatly. Therefore, the growth in the demand for hydrocarbon rests on the oil and natural gas exploration, drilling and production activity, but not essentially in proportion to the increase in these activities.

According to EIA report, the oil reserves in the U.S. were estimated at 21,317 billion barrels as at 1 January 2009. The EIA also projected that total consumption for petroleum to be 18.68 million barrel per day and 62.44 billion cubic feet per day for Natural Gas in 2010.

Below are the projected oil price made by the EIA up to 2030.



World Oil Prices in Three Price Cases, 1980-2030
(Source: International Energy Outlook 2009)

Rocky Mountain States Gas Overview:

The state of Utah is ranked 13th in the United States in crude oil production and 8th in natural gas production (source: U.S. Energy Information Administration's EIA 2009 ranking of production by state; latest available study performed by EIA). According to the EIA, the Rocky Mountain States account for nearly 22% of the total natural gas reserves (approximately 375 trillion cubic feet) in the United States and are located in unconventional gas or coalbed formations.

Challenges and Opportunities and the Importance of Pipeline Transportation Capacity:

In the recent past, natural gas spot market volatility in the Rocky Mountain States of Colorado, Utah, and Wyoming has been the result of increased production while pipeline export capacity has been unable to meet the demands of production increases. Because of the abundance of gas and lack of pipeline infrastructure to carry gas out to other markets, action has been taken to build new "major pipelines" from the Rockies to other markets in the United States. A lack of pipeline capacity to accommodate new gas finds has been the single biggest challenge that the Rockies region has faced.

On November 12, 2009, the Rockies Express Pipeline ("REX"), one of the largest pipelines ever constructed in the United States, became fully operational. This 1,679-mile, US$6.7 billion pipeline, stretches from Colorado to eastern Ohio with a capacity of 1.8 billion cubic feet per day (source: Kinder Morgan, NYSE: KMP).

Rockies Market Players and Share of Production:

The major market players in the Utah gas market are companies such as Anadarko (NYSE: APC) and EnCana (NYSE: ECA) who get the significant portion of their natural gas revenues from the Rockies. Anadarko is a major player in the Greater Natural Buttes area. In addition, companies specific to Utah gas explorations are: Ouestar Gas Co (NYSE: STR), EOG Resources (NYSE: EOG), XTO Energy (NYSE: XTO) and Ultra Petroleum (NYSE: UPL).

LEGAL AND REGULATORY REQUIREMENTS

The development of oil and gas resources in Utah is regulated under a system of federal, state and local laws which collectively address every aspect of the industry's operations. Natural gas and oil exploration and operations on federally owned "public lands" are managed by the Bureau of Land Management (BLM), within the U.S. Department of Interior. The U.S. Environmental Protection Agency (EPA) Administers Federal environmental laws, either directly or by delegating authority to the state level. In Utah, jurisdiction over the design, location, spacing, operation, production rate and abandonment and closure of wells is vested in the Utah DOGM, a department within the Utah Department of Natural Resources. The oversight of the State of Utah also covers environmental activities including but not limited to water management, waste management and disposal, air emissions, underground injection, wildlife impacts, surface disturbance, and worker health and safety. At the local level, the county government where the lands are located may enact specific zoning ordinances addressing oil and gas operations that may need to be complied with.

Leasing of federal public lands is governed by the Mineral Leasing Act of 1920 (30 U.S.C. §81 et seq.). Oil and gas operations on federal public lands are governed by the Federal Land Policy and Management Act of 1976 (43 U.S.C. §1701-1785). Decision making by the BLM on federal public lands is governed by the National Environmental Policy Act of 1969 (42 USC §4321). At the state level, the Utah Oil and Gas Conservation Act (Utah Code Ann. §40-6-1 et seq.) asserts state regulatory jurisdiction over all oil and gas production in the state. To the extent mineral interests are owned by the State of Utah for the benefit of its common schools, these interests are administered by the Utah School & Institutional Trust Lands Administration pursuant to Utah Code Ann. Sec. 53C-2-411. The forgoing presents a list of the more significant statutes affecting oil & gas exploration in the USA and Utah, but is not intended to be an exhaustive compilation.

The Target Group has obtained all relevant permits for of the First 14 Wells and will submit additional 27 well permits (APD, Application for Permit to Drill) to State of Utah, Division of Oil, Gas and Mining (DOGM), and Federal Bureau of Land Management (BLM) under US Department of Interior for review and approval. No legal impediment to renew our production license permits because all are held under production status till end of field economic production life.

Since this is the Target Group's first investment in oil & gas production in the United States, and in the Uinta Basin in Utah in particular, the Target Group does not have any history of compliance.

In terms of the existing oil and gas operations on the Areas, the Company has been advised by US lawyers that all necessary permits have been obtained. If future drilling operations are to be conducted on the lands additional licenses will need to be obtained. Specifically, each new well will require the approval of an Application for Permit to Drill (APD) from the Utah Division of Oil, Gas and Mining (DOGM), and, if the well is to be located on federal public lands, from the field office of the Bureau of Land Management (BLM). Failure to obtain APD approval would be detrimental to the future development of the lands. Approval of an APD by DOGM is pursuant to the Utah Oil and Gas Conservation Act (Utah Code Ann. §40-6-1 et seq.). Approval by the BLM is subject to compliance with the Federal Land Policy and Management Act of 1976 (43 U.S.C. §§1701-1785) and the National Environmental Policy Act of 1969 (42 U.S.C. §4321), among other statutes.

Feasibility Study

According to a feasibility study performed by the Company, the existing development plan of the Utah Gas and Oil Field is feasible and economical.

In order to expand the production capacity of the Utah Gas and Oil Field to the expected level, additional capital expenditure is required. With reference to the feasibility study, the Company estimated that the capital requirements of the Operating Company for the year ending 31 December 2010 would be approximately US$2.4 million (equivalent to approximately HK$18.72 million) for rework of existing seven (7) wells, US$1.8 million (equivalent to approximately HK$14.04 million) per new well for seven (7) new wells, totaling approximately US$15 million (equivalent to approximately HK$117 million). The said projected capital costs include expenditure on drilling, completion and all field development, as well as new exploration, advanced geological and geophysical studies and new production techniques, etc.

Shareholders should note that the above estimation is based on the feasibility study only and is subject to change in accordance with the actual development schedule of the Utah Gas and Oil Field.

Key Factors

The key matters the Company considers important in evaluating financial condition and prospects of the Utah Gas and Oil Field are:–

1. the amount of estimated gas and oil reserves as stated in the Technical Report;
2. the successful historical experience and past record of gas and oil production in locations near the Areas;
3. the demand and growth of clean and green energy is "natural gas", most new domestic gas supplies are coming from the Rocky Mountain States gas ie Colorado, Wyoming and Utah;
4. gas price is very stable comparing to oil in future according to information from the EIA;

5. Target Group has confirmed gas purchasers, eg. Anadarko to buy all the production with existing pipelines in the Areas; and

6. the assistance and professional support from the JV Partner in future daily operations of gas and oil production.

RISK FACTORS

No track record of operation

Potential risk is involved in the hydrocarbon future productions as a consequence of new drillings and the operation of new wells in the Areas. This is due to the lack of track record of operation in relation to the new drillings and the operation of new wells in the Areas. Therefore, no profit contribution has been recorded so far.

New business segment of the Group

The Acquisition constitutes an investment in a new business sector, being natural gas and petroleum exploitation and production. The Acquisition will not result in a change of business of the Company, but will result in a new business being injected into the Company. Therefore, the Board confirms that the Company will continue its existing business.

The new business, coupled with the regulatory environment, may pose significant challenges to the Company's administrative, financial and operational resources. The Company has no relevant experience and expertise to run and manage the new business in the past except that the Company will form a new Management Team comprising professional personnel from gas and oil industry as mentioned above.

Fluctuations on natural gas and petroleum prices

The fluctuations in supply and demand of natural gas and petroleum are caused by numerous factors beyond the Company's control, which include but not limited to global and domestic economic and political conditions and competition from other energy sources, and the growth and expansion in industries with natural gas and high petroleum demand. There is no assurance that the international demand for natural gas and petroleum and petroleum-related products will continue to grow, or that the international demand for natural gas and petroleum and petroleum-related products will not experience excess supply.

Significant and continuous capital investment

The natural gas and petroleum business requires significant and continuous capital investment. The major natural gas and petroleum 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 this business may significantly exceed the Company's budgets because of various factors beyond the Company's control, which in turn may affect the Company's financial condition. In conjunction with the new Management Team, the Directors will carefully monitor the major natural gas and petroleum exploration and exploitation projects and their respective budgets.

Actual development schedule may vary

The capital expenditure, development cost and the development schedule of the Utah Oil and Gas Field is based on the feasibility study only and is subject to change in accordance with the actual development schedule of the Utah Oil and Gas Field. In conjunction with the new Management Team, the Directors will carefully monitor the development schedule and seek for contingent planning should the actual development schedule varies from the planned development schedule.

Laws and regulations

This business is subject to extensive governmental regulations, policies and controls. There can be no assurance that the relevant government will not change such laws and regulations or impose additional or more stringent laws or regulations. Failure to comply with the relevant laws and regulations in the energy development and natural gas and petroleum exploitation projects may adversely affect the Company.

The Target Group may also be subject to various environmental protection laws and regulations in the USA, including those on discharge of waste substances and wildlife management and protection. As such, the Company may face constraints in the course of implementing its business strategies at the Utah Gas and Oil Field.

Fulbright advised the Company on certain United States federal laws and regulations to which operations in the Utah Gas and Oil Field may be subject. The Company will from time to time consult with such law firm as to these laws and regulations.

Country risk

The Company is entering a new business in the USA, in which the Company does not have any business presence. There can be a risk relating to the likelihood that changes in the business environment will occur which may affect the profitability of doing business in the USA. The change of political and economic conditions in the USA may also adversely affect the Company.

High capital expenditure

Given that the exploration and exploitation of oil and gas would require a substantial amount of capital commitment, the Group's liquidity position may be adversely affected by the development of the Utah Gas and Oil Field should the Group fails to conduct effective fund raising activities.

In order to expand the production capacity of the Utah Gas and Oil Field to the expected level, additional capital expenditure is required. With reference to the feasibility study, the Company estimated that the capital requirements of the Operating Company for the year ending 31 December 2010 would be approximately US$2.4 million (equivalent to approximately HK$18.72 million) for rework of existing seven (7) wells, US$1.8 million (equivalent to approximately HK$14.04 million) per new well for seven (7) new wells, totaling approximately US$15 million (equivalent to approximately HK$117 million). The said projected capital costs include expenditure on drilling, completion and all field development, as well as new exploration, advanced geological and geophysical studies and new production techniques, etc.

Taking in account the potential impact on the funding requirement for the drilling and development of new wells and working capital for the daily operations of the Utah Gas and Oil Field, the Group plans to utilize the future earnings from its production of natural gas and oil, and also obtain debt financings from financial institutions by employing the future earnings of the Utah Gas and Oil Field as security for such debt financings.

Shareholders should note that the above estimation is based on the feasibility study only and is subject to change in accordance with the actual development schedule of the Utah Gas and Oil Field.

Our industry has experienced a shortage of senior technical experts and management. Any difficulty we experience replacing or adding such personnel could adversely affect our business.

A team of talented and experienced engineers and other technical experts is crucial to the successful launching of high-end services from the initial design of a service concept to the fine-tuning and final delivery of such service. Talented and experienced personnel are scarce in our industry and competition for their services is intense. Our failure to recruit and retain a quality talent team may affect our expansion into the high-end market and thus may have a material adverse effect on our business prospects and results of operations. We intend to continue to expand into new service areas in the high-end market where we see appropriate opportunities but may lack experience or expertise. Our ability to benefit from such expansion will depend on a number of factors, several of which are beyond our control.

Our operations are subject to seasonal variations.

From time to time, we encounter severe weather conditions in certain areas where we operate, including decreased exploration and production activities in USA during the winter months, or a suspension of activities.

As a result of the above and other factors, demand for our services and products can be cyclical and subject to seasonal variations.

We are subject to significant operational risks that may not be fully covered by our insurance policies.

We face operational risks such as accidents or problems in our normal operations which may result in personal injury or death and/or damage to our property, such as equipment and facilities, and/ or the environment. Hazards present in the oil and gas industry, such as fire, explosion, blowouts and oil spills, may interrupt our operations, and the level of our operations and revenue may be indirectly affected by such hazards.

The execution of our capital expenditure plan is subject to some uncertainty.

We expect to commit a significant amount of capital to purchase equipment and construct facilities. These construction projects are subject to delays and cost overruns, including shortages of materials or skilled labor, unforeseen engineering problems, work stoppages, weather interference, unavailability of necessary equipment and the inability to obtain any required permits or approvals. We cannot assure you that we will be able to acquire equipment as planned. Significant delays, supply shortages or cost overruns could adversely affect our marketing plans and financial condition.

Failure to comply with environmental regulations could harm our business.

We are subject to various US national and local environmental laws and regulations in the areas where we operate, including those governing the use, storage, discharge and disposal of hazardous substances. If more stringent compliance or clean up standards under these laws or regulations are imposed, or the results of future testing and analyses at our operating indicate that we are responsible for the release of hazardous substances, we may be subject to remediation liability and increased environmental compliance costs. Furthermore, additional environmental matters may arise in the future at site where no problem is currently known or at site we operate in the future.

REASONS FOR THE ACQUISITION

After the disposal and cessation of its logistics assets and businesses in 2009, the Group's main focus is on energy and environmental recycling sectors.

Before the global financial tsunami took place in end of 2008, the highest international market prices of natural gas and oil was US$15.5/Mcf and US$147 per barrel respectively. After the financial crisis, as in December 2009, the prices of natural gas and oil were US$5.2/Mcf and US$74/barrel respectively, which were only 33.5% and 50.3% when compare to the highest prices. Hence, the natural gas has room for appreciation.

Countries around the world are striving for reducing emissions and solving the problems of global warming. A number of international energy enterprises are increasing their investments actively in the green energy sector. Therefore, the exploring, mergers and acquisitions of natural gas has become a crowded situation. Experts forecasted the future demand for natural gas will increase and the market price will definitely rise steadily which is favorable for increasing the operating profit.

Accordingly, the Group welcomed every investment opportunities which are beneficial to its long term development, with an aim to generate long term stable income. The Board believes that the Acquisition is a good opportunity for the Group to achieve good investment returns in the energy sector.

Especially, as a result of the recent global financial tsunami, it is difficult for small non-listed gas and oil enterprises in United State to raise financing for their operations. In such situation, good opportunity for the Acquisition has therefore arisen.

Before the investment opportunity for the Acquisition was first introduced to the Group by the Vendors, Marvel has already reached an agreement with the JV Partner for its investment.

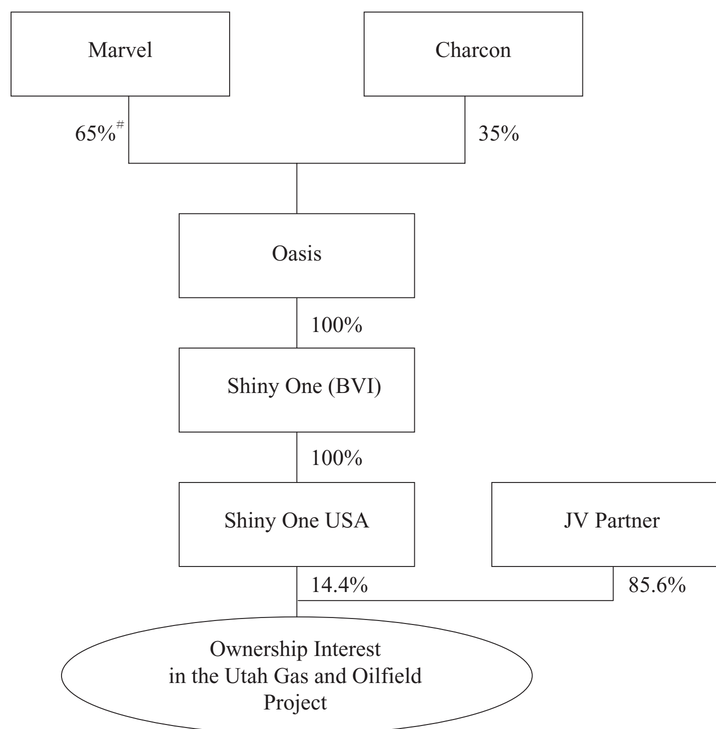
After market research on gas exploration and exploitation businesses and considered its development potential, the Company asked Marvel, Charcon and Dr. Lew to transfer their interests in this project to the Company. Therefore, the Company has entered into the Agreement with the Vendors to acquire the Target Group. The Directors consider the above arrangement is fair and reasonable and in the interest of the Company and Shareholders as a whole.

Based on the above, the Directors consider that the terms of the Acquisition are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

SHAREHOLDING CHARTS

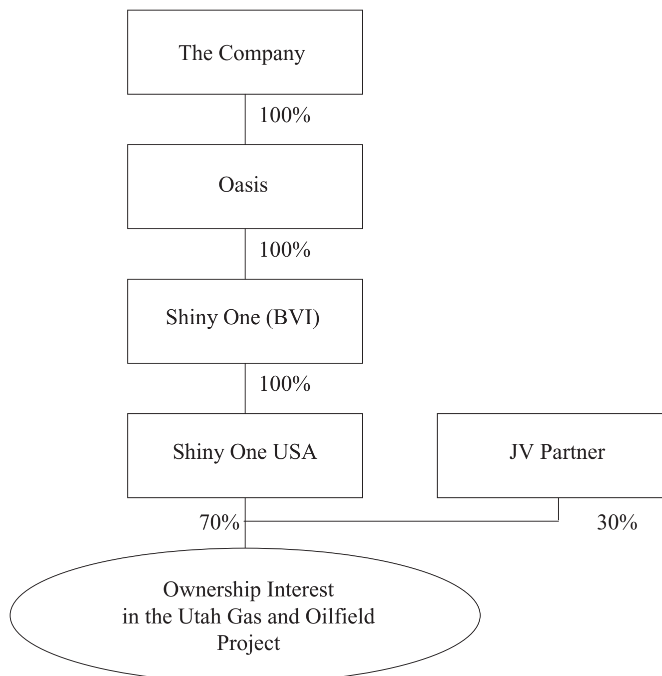
The following charts show the shareholding structure of the Target Group as at the Latest Practicable Date and immediately upon Completion, and the relationship between the parties involved in the Acquisition.

Before the Acquisition

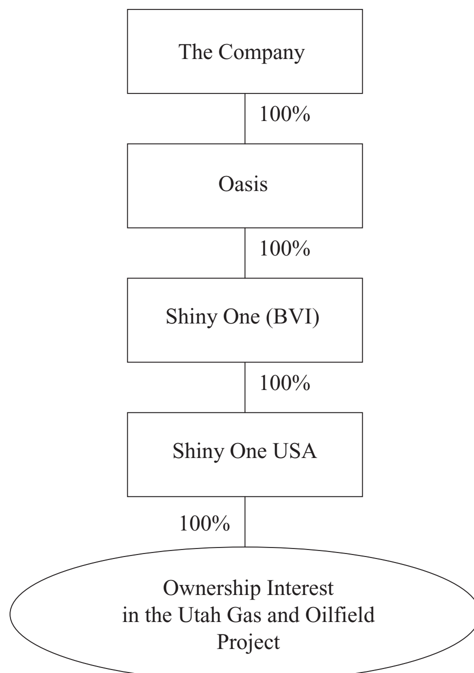


including 15% equity interest in Oasis which will be conditionally transferred to Dr. Lew.

After the Phase 1 Acquisition



After the Phase 2 Acquisition



FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The following is the fund raising activities conducted by the Group in the past 12 months immediately preceding the Latest Practicable Date:

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds as announced	Actual use of proceeds
4 June 2009	Issue of convertible notes	HK$30 million	As general working capital for the Group	As general working capital for the Group
11 December 2009	Subscription of 115,680,000 Shares	HK$114 million	Partly as general working capital for the Group and partly for possible acquisition of overseas energy and natural resources projects	As the Deposit for the Acquisition
14 December 2009	Subscription for 65,000,000 Shares	HK$64 million	For possible acquisition of overseas energy and natural resources projects	As part of the Further Deposit for the Acquisition
20 April 2010	Subscription for 231,367,000 Shares	HK$310 million	Partly as acquisition of Utah Gas and Oil Field and partly for costs for the exploitation and exploration of existing and new wells	As to HK$170 million as the Further Deposit for the Acquisition
3 May 2010	Issue of convertible note	HK$70 million	As general working capital for the Group	Has not yet been utilized

EFFECTS ON SHAREHOLDING STRUCTURE

	As at the Latest Practicable Date		Assuming completion of the Acquisition and the Company exercising the option for the Phase 2 Acquisition under the Agreement *(Note 2)*	
	(No. of Shares)	*(%)*	*(No. of Shares)*	*(%)*
Orient Day Developments Limited *(Note 1)*	710,952,800	43.38	710,952,800	27.80
Charcon Assets Limited *(Note 1)*	–	–	395,650,000	15.47
Sub-total for Mr. Wong Kwan	710,952,800	43.38	1,106,602,800	43.27
Marvel Sunlight Limited and its beneficial owner	25,077,800	1.53	307,677,800	12.03
JV Partner	–	–	70,650,000	2.76
Dr. Lew Mon Hung	–	–	169,560,000	6.63
Other Directors	2,912,090	0.18	2,912,090	0.11
Public Shareholders	899,841,270	54.91	899,841,270	35.20
Total	1,638,783,960	100.00	2,557,243,960	100.00

Note 1: Orient Day Developments Limited and Charcon Assets Limited are limited liability companies incorporated in the British Virgin Islands and wholly owned by Mr. Wong Kwan.

Note 2: Assuming the JV Partner elects the payment of US$12.5 million (equivalent to approximately HK$97.5 million) of the Phase 2 Consideration to be satisfied the Company by the issue and allotment of the Phase 2 Consideration Shares to the JV Partner.

As at the date of this circular, the Company has no outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares.

The transaction will not result in change of control of the Company.

FINANCIAL EFFECT OF THE ACQUISITION

Upon completion of the Acquisition, the financial results of the Target Group will be consolidated into the Company's financial statements. As shown in the unaudited pro forma consolidated statement of financial position set out in Appendix III to this circular, assuming Completion had taken place on 31 December 2009, the total assets of the Enlarged Group as at 31 December 2009 would have been approximately HK$2,228.9 million, representing an increase of approximately 370% as compared with that of the Group of approximately HK$473.9 million. The increase was mainly attributable to the acquisition of the 100% Ownership Interest as a result of the Phase 1 Acquisition and Phase 2 Acquisition. Furthermore, the acquisition of 100% Ownership Interest and assuming that the Phase 2 Consideration is to be satisfied by cash in full, it would have increased the total liabilities of the Enlarged Group by approximately 153% to approximately HK$326.3 million as at 31 December 2009 as compared with that of the Group of approximately HK$128.9 million.

The acquisition of 100% ownership interest and assuming that the Phase 2 Consideration is to be satisfied by as to US$12.5 million (equivalent to approximately HK$97.5 million) paid by cash and the remaining balance of US$12.5 million (equivalent to approximately HK$97.5 million) by the issue of shares, it would have increased the total liabilities of the Enlarged Group by approximately 78% to approximately HK$228.8 million as at 31 December 2009 as compared with that of the Group of approximately HK$128.9 million.

In addition, the Directors consider that the Phase 1 Acquisition and Phase 2 Acquisition will contribute to the revenue and earnings base of the Enlarged Group in future based on the anticipated development and production plan mentioned in the section headed "Future Development of the Utah Gas and Oil Field" above and the Group's feasibility study.

INFORMATION ON THE GROUP

The Company is an investment holding company and its subsidiaries are principally engaged in energy and recycling businesses.

As at the Latest Practicable Date, the Company has no agreement, arrangement, understanding, intention or negotiation about any disposal/termination/scaling-down of its existing recycling business.

As at the Latest Practicable Date, the Group has no contingent liability.

SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The critical accounting estimates and assumptions to be adopted in preparing the financial information of the Target Group as below:

Property, plant and equipment

Oil and gas properties

For oil and gas properties, the successful efforts method of accounting is adopted. The Group capitalises the initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgement. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalised and are reviewed periodically for impairment.

Productive oil and gas properties are depreciated on a unit-of-production basis over the proved developed reserves. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

Capitalised acquisition costs of proved properties are depreciated on a unit-of-production method over the total proved reserves of the relevant area.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Oil and gas sales

Oil and gas sales represent the invoiced value of sales of oil and gas attributable to the interests of the Group. Revenue from sale of oil and gas is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism.

Reserve base

Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to proved reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices. The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's oil and gas properties has been impaired.

Carrying value of oil and gas assets

The calculation of the unit-of-production rate for oil and gas properties amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include changes in proved reserves, the effect on proved reserves of differences between actual commodity prices and commodity price assumptions and unforeseen operational issues.

GENERAL

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Consideration Shares.

Since the relevant percentage ratio(s) (as defined under the Listing Rules) in respect of the Acquisition is more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of the circular, Mr. Wong, being beneficial owner of one of the Vendors, is a substantial Shareholder, Dr. Lew, being a party having interest in the Acquisition is the Deputy Chairman and an executive Director. Accordingly, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules due to the acquisition of 15% interest of Oasis from Dr. Lew and 35% interest of Oasis from Charcon. Completion of the Acquisition involving the transactions contemplated under the Agreement and the Proposed Issue pursuant to the Specific Mandate is therefore subject to, among other things, approval of the Independent Shareholders by way of poll at the SGM. The Vendors, Mr. Wong, Dr. Lew and their associates shall abstain from voting at the SGM in respect of the Acquisition. At the Latest Practicable Date, (i) Mr. Wong and his associates own 710,952,800 Shares representing 43.38% of the total issued share capital of the Company (ii) Marvel and its beneficial owners own 25,077,800 shares representing 1.53% of the total issued share capital of the Company; and (iii) Dr. Lew and his associates own no Share.

An Independent Board Committee (comprising independent non-executive Directors only) has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition and the transactions contemplated thereunder. Hercules Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the issue of the Consideration Shares and the transactions contemplated therein, and that the appointment has been approved by the Independent Board Committee.

THE SGM AND PROXY ARRANGEMENT

A notice convening the SGM to be held at Suite 1908, 19/F, 9 Queen's Road Central, Hong Kong on Tuesday, 8 June 2010 at 4:30 p.m. is set out on pages 260 to 261 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM (or any adjournment thereof) to the office of the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors, excluding the independent non-executive Directors, consider the terms of the Agreement are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors, excluding the independent non-executive Directors, recommend the Independent Shareholders to vote in favour of the resolutions in respect of the Agreement to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the letter form the Independent Board Committee set out on page 36 of this circular and the letter of advice received from Hercules on pages 37 to 56 of this circular as well as the additional information set out in the appendices to this circular.

The Board strongly advises the Independent Shareholders to read each of these letters and the appendices before reaching a decision in respect of the resolutions to be proposed at the SGM.

Yours faithfully,
For and on behalf of the Board
Pearl Oriental Innovation Limited
Lew Mon Hung
Deputy Chairman and Executive Director

東方明珠創業有限公司*
Pearl Oriental Innovation Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 632)

24 May 2010

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION
VERY SUBSTANTIAL ACQUISITION
SPECIFIC MANDATE TO ISSUE NEW SHARES

We refer to the circular of the Company dated 24 May 2010 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the terms of the Agreement and the Acquisition and the proposed grant of the Special Mandate, details of which are set out in the letter from the Board contained in the Circular, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Having considered the terms of the Agreement and the Acquisition and the advice of the Independent Financial Adviser in relation thereto as set out on pages 37 to 56 of this Circular, we are of the opinion that the terms of the Agreement and the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Independent Shareholders and the Company as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Agreement and the Acquisition.

Yours faithfully,
For and on behalf of the Independent Board Committee
Yu Jianmeng **Fung Hing Chiu, Cyril** **Lam Ka Wai, Graham**

* *For identification purposes only*

The following is the text of a letter of advice from the Independent Financial Adviser prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

Hercules

Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

24 May 2010

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND (2) SPECIFIC MANDATE TO ISSUE NEW SHARES

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the Acquisition, details of which are set out in the letter from the Board ("Letter from the Board") contained in the circular dated 24 May 2010 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 9 January 2010, the Company and the Vendors entered into the Agreement (as supplemented by the Supplemental Agreement dated 18 March 2010 and the Further Supplemental Agreement dated 10 May 2010), pursuant to which, the Company has conditionally agreed to acquire from the Vendors (and Dr. Lew who may conditionally acquire 15% equity interest in Oasis from Marvel Sunlight Limited ("Marvel"), being a party of the Vendors, prior to completion of the Phase 1 Acquisition) the Sale Shares and the amount due from Oasis to Charcon Assets Limited ("Charcon") of approximately HK$4.9 million (the "Shareholder's Loan") at a total consideration of US$200 million (equivalent to approximately HK$1,560 million).

The Sale Shares represent the entire issued share capital of Oasis, the subsidiaries of which will be principally engaged in natural gas and petroleum exploration, exploitation and production in the USA. As at the Latest Practicable Date, the Target Group owned 14.4% of the Ownership Interest in the Utah Gas and Oil Field which has a total net probable and possible natural gas reserve of 454.5 Bcf and oil reserve of 1.86 million barrels. Upon the date of completion of the Phase 1 Acquisition, the Vendors shall cause and procure that the Target Group shall hold 70% of the Ownership Interest. Accordingly, the Company shall own 70% of the Ownership Interest upon completion of the Phase 1 Acquisition.

According to the Agreement, the Company shall have the right, but not the obligation, to acquire the remaining 30% of the Ownership Interest from the JV Partner at a total consideration of US$25 million (equivalent to approximately HK$195 million) on or before 12 December 2011. If the Company opts for acquiring the remaining 30% Ownership Interest, the Company shall have 100% Ownership Interest in the Utah Gas and Oil Field after completion of the Phase 2 Acquisition.

Since the applicable percentage ratios defined in Rule 14.07 of the Listing Rules in respect of the Acquisition represent more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. Mr. Wong, being the chairman and a substantial shareholder of the Company beneficially holding approximately 43.38% of the total issued share capital of the Company as at the Latest Practicable Date, is the beneficial owner of Charcon, hence Charcon is considered a connected person of the Company. Although Dr. Lew did not have any equity interest in the Company as at the Latest Practicable Date, Dr. Lew is considered a connected person of the Company due to his directorship in the Company. Accordingly, the Acquisition also constitutes a connected transaction for the Company by virtue of the interests of Mr. Wong and Dr. Lew in the Acquisition and is subject to approval by the Independent Shareholders, by way of poll, at the SGM. The Vendors, Mr. Wong, Dr. Lew and their respective associates shall abstain from voting on the resolution in connection with the Acquisition to be proposed at the SGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Yu Jianmeng, Mr. Fung Hing Chiu, Cyril and Mr. Lam Ka Wai, Graham, has been established to consider the transactions contemplated under the Agreement (as supplemented by the Supplemental Agreement and the Further Supplemental Agreement) and to advise the Independent Shareholders on the fairness and reasonableness of the terms of the Acquisition. We, Hercules Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the Acquisition, in particular as to whether it is conducted in the ordinary and usual course of business of the Company and the terms of which are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and whether the Independent Shareholders should vote in favour of the resolution for approving the Agreement (as supplemented by the Supplemental Agreement and the Further Supplemental Agreement) and transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the SGM. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular. We have no reasons to suspect that any material information has been withheld by the Directors or the management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. The Directors confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any

independent investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date and their validity are subject to the assumptions as indicated in the valuation report, technical report and feasibility study relating to the Utah Gas and Oil Field, views of the Board and risk factors set out in the Letter from the Board. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Agreement (as supplemented by the Supplemental Agreement and the Further Supplemental Agreement), we have considered the following principal factors and reasons:

1. Information on the Group

The Company is an investment holding company and its subsidiaries are principally engaged in energy and recycling businesses.

The audited financial information of the Group for the two years ended 31 December 2009, which were extracted from the 2009 annual report of the Company, are summarized as follows:

	For the year ended 31 December	
	2009	**2008**
	HK$'000	*HK$'000*
Segment revenue		
– Provision of logistics and related services	32,092	78,783
– Plastic recycling	163,438	–
	195,530	78,783
Segment results		
– Provision of logistics and related services	(8,822)	(9,398)
– Plastic recycling	(16,686)	(968)
	(25,508)	(10,366)
Other income and gains	23,968	12,493
Unallocated expenses	(959,958)	(22,726)
Finance costs	(5,597)	(6,494)
Share of losses of associates	(548)	(12,752)
Loss before tax	(967,643)	(39,845)
Loss for the year attributable to owners of the Company	(566,840)	(38,310)

	As at 31 December	
	2009	2008
	HK$'000	*HK$'000*
Total assets	473,912	673,931
Total liabilities	(128,925)	(151,988)
Net assets	344,987	521,943
Equity attributable to owners of the Company	328,828	513,296

The revenue of the Group increased substantially by approximately 148.2% from approximately HK$78.8 million for the year ended 31 December 2008 to approximately HK$195.5 million for the year ended 31 December 2009, of which approximately HK$32.1 million was contributed by the provision of logistics and related services and approximately HK$163.4 million was contributed by plastic recycling segment. The overall increase in revenue was mainly attributable to the sales of plastic recycling materials, which was commenced in around September 2009. During the year, the Group disposed of its loss-making logistics business and a bonded warehouse in Shenzhen. Therefore, the revenue contributed from the logistics business segment decreased by approximately 59.3% in 2009.

For the year ended 31 December 2009, the Group recognized an impairment loss on available-for-sales investments of approximately HK$922.3 million in respect of the coal mining assets of the Group. As a result, the Group recorded a loss before tax of approximately HK$967.6 million for the year ended 31 December 2009, representing an increase of approximately 23.3 times as compared to the loss for the previous year. Loss for the year attributable to the owners of the Company was approximately HK$566.8 million, representing an increment of approximately 13.8 times over the previous year.

As at 31 December 2009, the non-current assets of the Group amounted to approximately HK$187.2 million, of which approximately HK$64.5 million were property, plant and equipment and approximately HK$121.9 million were goodwill arising from the acquisition of plastic recycling business. The current assets of the Group amounted to approximately HK$286.7 million as at 31 December 2009, which consisted of inventories of approximately HK$8.7 million, trade and other receivables, prepayments and deposits of approximately HK$53.7 million and cash and cash equivalents of approximately HK$224.3 million. The substantial increase in cash and cash equivalents was mainly attributable to the receipt of net proceeds of approximately HK$178 million from the placing of new Shares in December 2009.

As at 31 December 2009, the Group had non-current liabilities of approximately HK$66.3 million, being the loan from immediate parent and ultimate controlling party. The current liabilities of the Group as at 31 December 2009 was approximately HK$62.6 million, which included trade, tax and other payables and accruals of approximately HK$57.7 million and loan from immediate parent and ultimate controlling party of approximately HK$4.9 million. The total liabilities of the Group decreased from approximately HK$152.0 million as at 31 December 2008 to approximately HK$128.9 million as at 31 December 2009. The net asset of the Group attributable to the owners of the Company was approximately HK$328.8 million as at 31 December 2009.

The Group has conducted the following fund raising activities in the past twelve months immediately preceding the Latest Practicable Date:

Date of announcement	**Event**	**Net proceeds (approximately)**	**Intended use of proceeds**	**Actual use of proceeds**
4 June 2009	Issue of convertible notes	HK$30 million	General working capital for the Group	General working capital for the Group
11 December 2009	Subscription of 115,680,000 Shares	HK$114 million	General working capital for the Group and possible acquisition of overseas energy and natural resources projects	Deposit for the Acquisition
14 December 2009	Subscription of 65,000,000 Shares	HK$64 million	Possible acquisition of overseas energy and natural resources projects	Deposit for the Further Acquisition
20 April 2010	Subscription of 231,367,000 Shares	HK$310 million	Acquisition of Utah Gas and Oil Field and costs for the exploitation and exploration of existing and new wells	HK$170 million has been utilized as the further deposit for the Acquisition
3 May 2010	Issue of convertible note	HK$70 million	General working capital for the Group	Not yet been utilized

2. Information on the Target Group and the Utah Gas and Oil Field

a) The Target Group

Oasis was incorporated in the British Virgin Islands as a private company with limited liability on 9 December 2009. It is an investment holding company which was owned as to 65% by Marvel and 35% by Charcon as at the date of the Agreement. The Company was informed that 15% equity interest of Oasis might be conditionally transferred from Marvel to Dr. Lew prior to completion of the Phase 1 Acquisition at a consideration of US$30 million (equivalent to approximately HK$234 million) and Marvel would procure the transfer of the 15% equity interest in Oasis held by Dr. Lew to the Company upon completion of the Phase 1 Acquisition in case the acquisition of the 15% equity interest in Oasis is effected by Dr. Lew.

As at the Latest Practicable Date, Oasis held 100% of the equity interest in Shiny One (BVI), being an investment holding company, which in turn held 100% of the equity interest in Shiny One USA. Shiny One USA has not commenced any business yet. After completion of the

Acquisition, the Target Group will engage in natural gas and petroleum exploration, exploitation and production in the Areas located in Utah, the USA. As at the Latest Practicable Date, the Target Group owned 14.4% of the Ownership Interest in the Utah Gas and Oil Field. Upon completion of the Phase 1 Acquisition, the Vendors shall cause and procure that the Target Group shall hold 70% of the Ownership Interest.

According to the accountants' report on the Target Group set out in Appendix II to this Circular, the Target Group recorded a loss for the period of approximately HK$1.0 million for the financial period from 29 September 2009 (the date of incorporation of Oasis) to 31 December 2009. The loss was mainly attributable to the legal and professional fee incurred by the Target Group. As at 31 December 2009, the Target Group had total assets of approximately HK$3.9 million, which comprised mainly prepayments, deposits and other receivables, and total liabilities of approximately HK$4.9 million, being the shareholder's loan due to Charcon. As at 31 December 2009, the Target Group had net liabilities of approximately HK$1.0 million.

b) The Utah Gas and Oil Field

The Utah Gas and Oil Field is located on the east side of the Natural Buttes gas field in Township 9 South – Range 24 East, Uintah County, Utah, the USA and surrounded by the renowned U.S. oil and gas exploration and production companies, including Anadarko Petroleum Corporation ("Anadarko") and Questar Corp. (which are listed on the New York Stock Exchange with total market capitalization of approximately US$31.5 billion (equivalent to approximately HK$245.7 billion) and approximately US$7.5 billion (equivalent to approximately HK$58.5 billion) respectively), which have successfully recorded excellent exploitation and operating results of oil and natural gas in the region for many years. The Utah Gas and Oil Field covers an area of about 3,692 acres. According to the Technical Report, the net probable and possible reserves of the Utah Gas and Oil Field are estimated to be approximately 1.86 million barrels of condensate and approximately 454.5 Bcf of gas based on the proposed field development plan of 10 acre spacing program.

In accordance with the information published by DOGM in its website (http://oilgas.ogm.utah.gov) with sources from Energy Information Administration, the state of Utah ranked the 13th in the USA in crude oil production and the 8th in marketed natural gas production (excluding Federal Offshore production areas) in 2008. Furthermore, Utah ranked the 11th in the USA in crude oil proved reserves and the 8th in natural gas proved reserves (excluding Federal Offshore areas) in 2008. Four of the USA's 100 largest oil fields and two of the 100 largest natural gas fields in 2008 were located in Utah. Currently, Utah has approximately 3,200 producing oil wells and 5,700 producing natural gas wells.

The statistics published by DOGM showed that Uintah County had total oil production of approximately 0.5 million barrels and 6.7 million barrels for the period from 1 January 2010 to 13 May 2010 and the year of 2009 respectively and total natural gas production of approximately 22,900 Bcf and 283,300 Bcf for the period from 1 January 2010 to 13 May 2010 and the year of 2009 respectively. Over 2,500 wells have been spudded in Uintah County since 2006.

A total of seven wells have been drilled and completed on the acreage of the Utah Gas and Oil Field since 1973. Existing wells on the leases associated with the Utah Gas and Oil Field are currently shut-in due to a lack of capital to perform recommended remedial stimulation activity to add additional indicated productive intervals. Applications have been made to the US Bureau of Land Management for permits to perform the remedial activities on the existing wells and for

anticipated future drilling on the leases. These permits will extend the primary term of the leases for an additional two years. Following restoration of production, the leases be retained as long as there is production from at least one well on each lease.

The Company planned to drill around 40 new wells per annum in average in coming years making a total of 360 wells with 10 acre spacing in the Utah Gas and Oil Field. The 10 acre spacing program was approved in 2009 by the State of Utah Board of Oil, Gas and Mining Commission. In 2010, the Company plans to use around US$2.4 million (equivalent to approximately HK$18.72 million) to rework the seven existing wells in the Utah Gas and Oil Field. The Company expected that there will be natural gas production in these wells within three months after commencement of the works. In addition, US$12.6 million (equivalent to approximately HK$98.28 million) will be spent on drilling seven new wells on the Utah Gas and Oil Field. Standard modern day drilling and completion techniques for natural gas sand formations will be applied. Approximately wells of 8,000 to 9,000 feet will be drilled with multiple known sand zones requiring fracture stimulation. Gas and oil are expected to be produced and measured for sale at the well pad/location.

The Company anticipated that the estimated net natural gas production volume for the fourteen wells mentioned above (the "First 14 Wells") for the year of 2010, 2011 and 2012 will be approximately 2.09 Bcf, 1.77 Bcf and 1.18 Bcf respectively and the estimated net oil production volume for the First 14 Wells for the year of 2010, 2011 and 2012 will be approximately 24,000 barrels, 13,000 barrels and 7,000 barrels respectively. To secure the sale of the natural gas to be produced by the Utah Gas and Oil Field, a gas purchase agreement has been entered into with Anadarko, which has a gas pipeline running through the Utah Gas and Oil Field, whereby it is agreed that all gas production from the Utah Gas and Oil Field will be sold to Anadarko.

The initial phase of the 2010 exploitation schedule involves a 2.5 month work-over and re-completion program of up to seven existing wells. The second phase of the exploitation schedule involves a 6-to 6.5-month drilling and completion program of seven new wells. The field work for the initial work-over will commence in late May or early June 2010 and it is expected to be completed by end of August 2010 while the development program of the seven new wells is planned to be carried out during the period of June 2010 to November 2010.

The Company plans to develop 60 new wells in 2011 and such well development program is planned to start in May 2011. Multiple drilling rigs will be used so as to meet the scheduling demands of the 2011 development program. In anticipation of the work to be performed in 2011, it is planned to start the preparatory work on 37 new applications for permit to drill in June 2010. Approval for these new drilling permits is expected to be received at the end of 2010 or early 2011.

The Company plans to develop 346 additional wells in the Utah Gas and Oil Field in subsequent years. Based on the latest quotations obtained from drilling and services companies, the development cost per well for the remaining 346 wells to be drilled in the Utah Gas and Oil Field is estimated to be approximately US$1.35 million (equivalent to approximately HK$10.53 million).

3. Reasons for the Acquisition

The Group is principally engaged in energy and environmental recycling business. To further strengthen its performance, the Group has been actively looking for investment opportunities which are beneficial to its long term development in the energy sector.

Having considered that (i) the market generally has a view that the global demand for, and prices of, oil and gas will continue to increase in the foreseeable future (further details on the analysis of the worldwide oil and gas industry are set out in the paragraph headed "Outlook of the Worldwide Oil and Gas Industry" in this letter); (ii) the Utah Gas and Oil Field has an estimated net probable and possible natural gas reserves of 454.5 Bcf and oil reserves of 1.86 million barrels; (iii) Halliburton Company, being a reputable and one of the world's largest technical engineering companies, has endorsed that the Utah Gas and Oil Field is at a ready-to-go stage with huge earning prospect; (iv) the seven existing wells of the Utah Gas and Oil Field are expected to have natural gas production within three months after commencement of the re-works; (v) Anadarko, a renowned U.S. oil and gas exploration and production company, has conditionally agreed to purchase all natural gas production from the Utah Gas and Oil Field in accordance with the gas purchase agreement; (vi) the total consideration for the Acquisition of US$225 million represents a discount of approximately 55% to the preliminary valuation of 100% Ownership Interest of the Utah Gas and Oil Field of approximately US$500 million valued by BMI; (vii) the Acquisition is in line with the Company's effort to focus on energy and natural resources businesses, the Directors are of the view that the Utah Gas and Oil Field may be able to generate long-term stable income for the Group in the foreseeable future and the Acquisition may represent an investment opportunity for the Group to achieve a good investment return.

Based on the above, we concur with the Directors' view that the Acquisition is conducted in the ordinary and usual course of business and it is in the interest of the Company and the Independent Shareholders as a whole.

4. Major Terms of the Agreement

a) The Acquisition

Pursuant to the Agreement (as supplemented by the Supplemental Agreement and the Further Supplemental Agreement), the Acquisition shall be divided into two phases. The Phase 1 Acquisition involves the acquisition by the Company of the entire equity interest of Oasis which indirectly owns 70% of the Ownership Interest in the Utah Gas and Oil Field and the assignment to the Company of the Shareholder's Loan of approximately HK$4.9 million. For the Phase 2 Acquisition, the Company shall have the right, but not the obligation, to acquire the remaining 30% Ownership Interest from the JV Partner on or before 12 December 2011.

b) Consideration for the Acquisition

The total consideration for the Phase 1 Acquisition is US$200 million (equivalent to approximately HK$1,560 million), which shall be satisfied by the Company as follows:

(i) a refundable cash deposit of US$20 million (equivalent to approximately HK$156 million) has been paid upon signing of the Agreement;

(ii) a further refundable cash deposit of US$30 million (equivalent to approximately HK$234 million) has been paid upon signing of the Further Supplemental Agreement; and

(iii) US$150 million shall be satisfied by the issue of 282,600,000 Consideration Shares to Marvel, 169,560,000 Consideration Shares to Dr. Lew and 395,650,000 Consideration Shares to Charcon upon completion of the Phase 1 Acquisition.

The total consideration for the Phase 2 Acquisition is US$25 million (equivalent to approximately HK$195 million), which shall be satisfied, at the option of the JV Partner, either by (i) payment in cash of US$25 million (equivalent to approximately HK$195 million); or (ii) payment in cash of US$12.5 million (equivalent to approximately HK$97.5 million) and the issue and allotment of 70,650,000 Consideration Shares at HK$1.38 per Consideration Share for settlement of the remaining consideration of US$12.5 million (equivalent to approximately HK$97.5 million).

If the Phase 2 Acquisition takes place, the total Consideration for the Company to acquire 100% Ownership Interest in the Utah Gas and Oil Field will be US$225 million (equivalent to approximately HK$1,755 million). The Company expects that the Consideration shall be financed by its internal resources.

We have been informed by the Directors that the Consideration was determined after arm's length negotiations between the parties to the Agreement, taking into account (i) the preliminary valuation of 100% Ownership Interest of the Utah Gas and Oil Field of approximately US$500 million (equivalent to approximately HK$3.9 billion) valued by BMI, an independent valuer; (ii) the Technical Report issued by HAAS on 25 November 2009 confirming that the Utah Gas and Oil Field has a total net probable and possible natural gas reserves of 454.5 Bcf and oil reserves of 1.86 million barrels; and (iii) the expected total exploitation value of the Utah Gas and Oil Field of US$2.5 billion (equivalent to approximately HK$19.5 billion) with reference to the international market price of natural gas and oil at the end of December 2009.

As the Target Group has not commenced its business yet and Oasis has not declared or distributed any dividend since its incorporation, we consider that neither the price-earnings approach nor dividend approach, both of which are commonly used in valuation of a company, can be used for assessing the reasonableness of the consideration for the Acquisition. Furthermore, as the Target Group had net liabilities of approximately HK$1.0 million as at 31 December 2009, the assets approach cannot be used for valuation of the Target Group as well.

Given that the Target Group does not have any material assets and liabilities other than the Ownership Interest, we consider that the valuation of the Ownership Interest is a reasonable benchmark for assessing the value of the Target Group. According to the valuation report prepared by BMI which is set out in Appendix IX to this Circular (the "Valuation Report"), the market value of the 100% Ownership Interest in the Utah Gas and Oil Field as at 28 February 2010 was US$420 million (equivalent to approximately HK$3.276 billion).

We have reviewed the Valuation Report and noted that the valuer has adopted the income approach with discounted cash flow method for valuing the Ownership Interest. According to BMI, it has considered three generally accepted valuation approaches, namely cost approach, market approach and income approach, for the valuation of the Ownership Interest. The income approach was concluded by BMI as the most appropriate approach for valuation of the Ownership

Interest as the income approach necessitates a more detailed analysis of expected cash flows and cost of capital for such cash flows as well as the specific geological and geographical conditions of the Utah Gas and Oil Field while the market approach does not. The market approach, instead, relies generally on deriving value through a measure of the values of comparable companies or market transactions. Given the characteristics of the Utah Gas and Oil Field, there was a lack of explicitly comparable companies or market transactions as at the date of valuation for deriving an indicative value of the Ownership Interest with sufficient level of accuracy. Therefore, the market approach was not used by the valuer for the valuation of the Ownership Interest. The cost approach was also considered inappropriate as the replication cost may not represent the value of the Utah Gas and Oil Field.

We have been confirmed by BMI that discounted cash flow method under the income approach is a generally accepted valuation approach in determining the value of an asset similar to the Utah Gas and Oil Field and such approach is in compliance with the accepted valuation procedures and practices in accordance with the Business Valuation Standards published by the Hong Kong Business Valuation Forum in 2005. Given that the valuation methodology applied by BMI is normal and usual among professional valuers and in compliance with the standards published by the Hong Kong Business Valuation Forum, we consider that the methodology adopted by BMI in their valuation of the Ownership Interest is appropriate.

We have also reviewed and discussed the major assumptions adopted in the valuation of the Ownership Interest, which are set out in the Valuation Report, with BMI and the Company. We noted that BMI determined the beta of the Utah Gas and Oil Field, which is a measure of the correlation between a stock's return in relation to the market return and was used to calculate the discount rate adopted in the valuation under the income approach, by reference to the beta of six comparable companies, all of which are listed companies and are principally engaged in the business of exploration, development and production of oil and gas, since the Utah Gas and Oil Field is not listed and thus the beta of which is not readily available. Upon our enquiry, BMI explained to us that beta for listed companies instead of those for non-listed companies were used for determining the beta of the Utah Gas and Oil Field because beta for non-listed companies is not available for reference purposes. Given that the selected comparable companies are engaged in similar business, although not exactly the same, as those of the Utah Gas and Oil Field and they were the only relevant samples that were available for references at the time of the valuation, we consider that using beta of such comparable companies in the determination of the beta of the Utah Gas and Oil Field is reasonable and acceptable. In addition, we have been confirmed by Veda Capital that they have reviewed the forecast upon which the valuation has been made and discussed with the Company and the valuer the information and documents provided by them which formed part of the basis and assumptions upon which the forecast has been prepared, and is satisfied that such forecast has been made after due and careful enquiry by the Directors. Ascenda Cachet also expressed their opinion in their report on forecasts underlying the valuation on the Utah Gas and Oil Field set out in Appendix VII to the Circular that the forecast underlying the valuation has been properly compiled in accordance with the bases and assumptions adopted by the Directors in the preparation of the forecast so far as the calculations are concerned and are presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. We have not noted any assumption of the valuation which is unusual or unreasonable.

Having considered that (i) the Consideration represents a discount of approximately 46.4% to the valuation of the 100% Ownership Interest in the Utah Gas and Oil Field; and (ii) the consideration to be paid by the Company for the acquisition of 15% equity interest in Oasis is

equal to the cost paid by Dr. Lew for acquisition of such equity interest, we consider that the consideration for the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and it is on normal commercial terms.

c) Issue Price of the Consideration Shares

The issue price per Consideration Share (the "Price") of HK$1.38 represents:

(i) a premium of approximately 48.4% to the closing price of HK$0.93 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

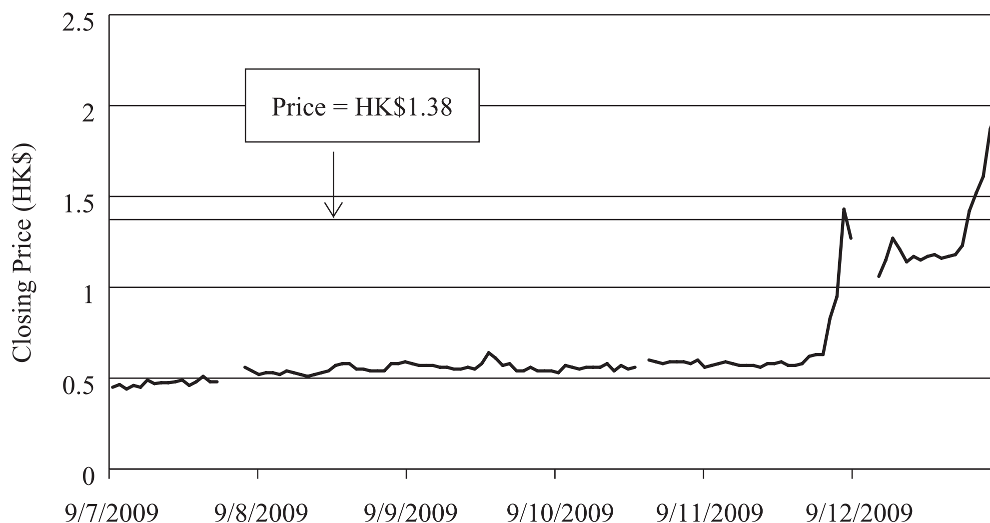
(ii) a discount of approximately 30.3% to the closing price of HK$1.98 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 17.9% to the average closing price of HK$1.68 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and

(iv) a premium of approximately 4.8% over the average closing price of HK$1.317 per Share as quoted on the Stock Exchange for the last twenty trading days up to and including the Last Trading Day.

According to the Directors, the Price was arrived at after arm's length negotiations between the Vendors and the Company, taking into account (i) the above discounts/premium as represented by the Price to/over the historical prices of the Shares; (ii) the unaudited net asset value per Share of approximately HK$0.94 as at 30 June 2009; and (iii) the upsurge of the market price of the Shares before the entering into of the Agreement.

In order to assess the fairness and reasonableness of the Price, we have reviewed the movements in trading price of the Shares during the period from 9 July 2009 to the Last Trading Day (the "Review Period"), representing the six-month period immediately preceding the Last Trading Day.



Source: The website of the Stock Exchange (www.hkex.com.hk)

Note: Trading in the Shares was suspended during the periods of 31 July 2009 – 4 August 2009, 27 October 2009 and 9 December 2009 – 11 December 2009.

As illustrated in the above chart, the Shares were traded stably in the range of HK$0.44 and HK$0.63 during the period from 9 July 2009 to 2 December 2009. On 3 December 2009, the trading price of the Shares suddenly increased to HK$0.83 and reached the short-term highest level of HK$1.43 on 7 December 2009. Immediately before the suspension of trading in the Shares on 9 December 2009 pending the release of an announcement regarding the subscription of Shares, the price of the Shares dropped slightly to HK$1.27. Subsequent to the publication of the aforementioned announcement, the trading price of the Shares further dropped to HK$1.06 on 14 December 2009.

On 15 December 2009, the Company announced that it has appointed a professional consultant and agent for possible acquisitions of certain uranium mines in overseas countries such as Canada, Congo and Mongolia. The trading price of the Shares then rebounded and reached HK$1.27 on 16 December 2009. After that, the trading price of the Shares fluctuated narrowly in the range of HK$1.14 and HK$1.21 during 17 December 2009 and 30 December 2009. Since then, the trading price of the Shares increased continuously in subsequent days. On 7 January 2010, the Company announced that the Board was not aware of any reason for the increases in price and trading volume of the Shares save for the discussion in relation to the possible acquisitions of certain overseas energy and natural resources projects. After the publication of the aforesaid announcement, the trading price of the Shares continued to increase and reached the highest level of HK$1.98 on the Last Trading Day. The closing price of the Shares was HK$0.93 on the Latest Practicable Date.

During the Review Period of 121 trading days (excluding the days on which the Company has suspended trading), there were only six days on which the closing price of the Shares was above the Price of HK$1.38.

We have also reviewed the historical trading volume of the Shares during the Review Period. The average daily trading volume of the Shares, the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public Shareholders during the Review Period are shown in the table below.

Month	**Average daily trading volume**	**% of average daily trading volume to the total number of issued Shares** *(Note 1)*	**% of average daily trading volume to the total number of Shares in public hands** *(Note 2)*
2009			
July *(Note 3)*	185,498	0.0151%	0.0274%
August	2,851,063	0.2325%	0.4209%
September	709,909	0.0579%	0.1048%
October	507,829	0.0414%	0.0750%
November	402,667	0.0328%	0.0594%
December	23,500,232	1.9162%	3.4695%
2010			
January *(Note 4)*	29,491,163	2.4047%	4.3540%

Source: The website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Based on 1,226,416,960 Shares in issue as at the Last Trading Day.

2. Based on 677,342,270 Shares held in public hands as at the Last Trading Day.

3. Represents trading volume for the period from 9 July 2009 to 31 July 2009.

4. Represents trading volume for the period from 1 January 2010 to 8 January 2010.

5. Trading in the Shares was suspended during the periods of 31 July 2009 – 4 August 2009, 27 October 2009 and 9 December 2009 – 11 December 2009.

The above table demonstrates that the average daily trading volume of the Shares during the Review Period was in the range of approximately 0.0151% to 2.4047% as to the total number of issued Shares as at the Last Trading Day and approximately 0.0274% to 4.3540% as to the total number of Shares held in public hands as at the Last Trading Day. Save for the month of December 2009 and January 2010, all the percentages of the average daily trading volume to the total number of issued Shares and the total number of Shares held in public hands were below 1% during the Review Period. The above statistics revealed that the liquidity of the Shares was very low.

In addition, we have conducted a comparison between the Acquisition with other transactions announced by companies listed on main board or GEM of the Stock Exchange during the Review Period in respect of acquisition of assets relating to resources and energy and involving issue of consideration shares. To our best knowledge and information, based on the information available

in the website of the Stock Exchange, we have identified seven comparable transactions (the "Comparables"). The discount/premium of the issue price of the consideration shares to/over the closing price of the last trading day of the Comparables are set out in the following table.

Date of announcement	Company Name (Stock code)	(Discount)/premium (to)/over the closing price on the last trading day *(%)*
24 July 2009	Prosperity International Holdings (H.K.) Limited (803)	(35.06)
28 July 2009	BEL Global Resources Holdings Limited (761)	14.68
25 August 2009	EPI (Holdings) Limited (689)	(33.30)
7 September 2009	Grand TG Gold Holdings Limited (8299)	74.19
22 September 2009	Fushan International Energy Group Limited (639)	1.20
9 December 2009	Global Green Tech Group Limited (274)	(19.19)
8 January 2010	Jackin International Holdings Limited (630)	0.00
Minimum		(35.06)
Maximum		74.19
9 January 2010	**The Company**	**(30.30)**

Source: The website of the Stock Exchange and the respective announcement of the Comparables.

As shown in the above table, the discount/premium of the issue price of the consideration shares to/over the closing price on the last trading day of the Comparables ranged from a discount of approximately 35.06% to a premium of approximately 74.19%. The discount of the Price to the closing price of the Shares on the Last Trading Day was 30.30%, which falls within the range of the Comparables.

Shareholders should be aware of the fact that the business model, operations and prospects of the Company are not the same as the Comparables and therefore, the above comparison is only used as a general reference for the common market practice of companies listed on the Stock Exchange for transactions involving issue of consideration shares, the prevailing market sentiments and the general desirability and attractiveness of consideration shares over cash consideration.

Having considered that (i) the Price represents a premium of approximately 48.4% over the closing price of HK$0.93 per Share as quoted on the Stock Exchange on the Latest Practicable Date, a premium of approximately 4.8% over the average closing price of HK$1.317 per Share as quoted on the Stock Exchange during the twenty trading days up to and including the Last Trading Day and a premium over the closing prices of the Shares for most of the time during the Review Period; (ii) the price of the Shares were relatively stable during the Review Period, except for the upsurge of the prices of the Shares around one month before the Last Trading Day when announcements were made by the Company to disclose the possible acquisitions of energy and natural resources projects; (iii) the trading volume of the Shares was thin during the Review Period; and (iv) the discount of the Price to the closing price of the Shares on the Last Trading Day falls within the market range of the Comparables, we consider that the Price, which represents a discount of approximately 30.30% to the closing price of the Share on the Last Trading Day, is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

d) Profit Sharing

Pursuant to the Agreement (as supplemented by the Supplemental Agreement and the Further Supplemental Agreement), the Company will pay the costs of development in aggregate amount of US$15 million (equivalent to approximately HK$117 million) for re-development of seven existing wells and the drilling of seven new wells in the Utah Gas and Oil Field upon completion of the Phase 1 Acquisition. The Net Operating Income of these 14 wells shall be shared by the Company and the Vendors (including the JV Partners) at the ratio of 70:30 till the end of the First 14 Wells' economic life.

Before completion of the Phase 2 Acquisition, if the Company provides additional funding for development of new wells in the Utah Gas and Oil Field other than the First 14 wells while the Vendors (including the JV Partner) do not make the corresponding contribution, the Company and the Vendors (including the JV Partner) will share the Net Operating Income of the additional new wells at the ratio of 90:10. If the Company and the Vendors (including the JV Partners) contribute additional funding in proportion to their respective interest in the Ownership Interest for development of new wells other than the First 14 wells, the Company and the Vendors (including the JV Partner) shall share the Net Operating Income of those new wells at the ratio of 70:30.

After completion of the Phase 2 Acquisition, the Group shall own 100% of the Ownership Interest. Accordingly, the Group shall be entitled to 100% of the Net Operating Income of wells other than the First 14 Wells in the Utah Gas and Oil Field while the Net Operating Income of the First 14 Wells shall continue to be shared with the Vendors (including the JV Partner) at the ratio of 70:30.

Having considered that (i) the Vendors (including the JV Partner) have also injected capital for the initial development of the seven existing wells in the past and the profit sharing ratio for the First 14 Wells is commensurate with the interest proportion of the Company and the Vendors in the Ownership Interest; (ii) before completion of the Phase 2 Acquisition, the Company will be compensated with an additional 20% of the Net Operating Income of the new wells on top of its entitlement of 70% in accordance with its interest proportion in the Ownership Interest if the Vendors do not contribute additional funding for the development of new wells; (iii) save for the

First 14 Wells, the Group shall be entitled to 100% of the Net Operating Income of all wells after the completion of the Phase 2 Acquisition, we consider that the profit sharing arrangement under the Agreement is commercially justifiable.

e) Other Terms

Pursuant to the Agreement, the Operating Company will be established to engage in the exploration, development and drillings of the existing and new wells and production of the Utah Gas and Oil Field. The board of directors of the Operating Company, which will be mainly responsible for decision making on the administration and finance matters in relation to exploitation in the Utah Gas and Oil Field, shall comprise five directors, three of which shall be nominated by the Company while the remaining two will be nominated by the Vendors (including the JV Partner).

According to the Directors, the Operating Company will have experienced contractors, professional consultants and staff up to fifteen persons in total. Mr. William A. Ryan will be appointed as the Chief Engineer and Project Operations Manager of the Operating Company. Mr. Ryan holds a bachelor degree in Geological Engineering from University of Minnesota and has over 35 years of experience in drilling, completing and operating wells and projects in the Uinta and Piceance Basins (Rocky Mountains). He has involved in all aspects of oil and gas development such as drilling, completion, production, pipeline design, condensate stabilization and oil and gas production equipment design. Mr. Ryan has directed the permitting of over 250 wells in a single year and such permits included drilling design, pipelines, roads, water disposal, environmental impacts and historic and archeological resources, etc.

The JV Partner, which is principally engaged in oil and gas investments, exploration and exploitation in the USA, will also participate in the operations of the Operating Company and supervise the day-to-day activities including exploration and exploitation of the Utah Gas and Oil Field.

The Directors consider, and we concur with their view, that the establishment of, and the participation of Mr. Ryan and the JV Partner in, the Operating Company shall facilitate the daily operations of the gas and oil production of the Utah Gas and Oil Field and are in the interest of the Company. Furthermore, the composition of the board of directors of the Operating Company is commensurate with the equity interest of the Company and the Vendors in the Ownership Interest.

5. Outlook of the Worldwide Oil and Gas Industry

According to the World Energy Outlook 2009 ("WEO 2009") published by International Energy Agency in November 2009, the global energy demand is projected to increase by approximately 1.5% per annum between 2007 and 2030, from 12.0 billion tones of oil equivalent ("Btoe") to 16.8 Btoe, representing an overall increase of 40%. Fossil fuels (including liquid fuels and other petroleum, natural gas and coal) remain the dominant sources of energy worldwide and accounting for 77% of the overall increase in energy use between 2007 and 2030. The worldwide demand of natural gas, a kind of fossil fuels with lower carbon dioxide emissions than coal and oil, is expected to rise by 43% from 3.0 trillion cubic metres in 2007 to 4.3 trillion cubic metres in 2030, representing an average increase of 1.5% per annum between 2007 and 2030. Oil demand is estimated to grow by 1% per annum on average over the projection period, from 85 million barrels per day in 2008 to 105 million barrels per day in 2030, representing an overall growth of around 24%. The crude oil import prices, in real terms, are assumed to fall from the 2008 level of US$97 per barrel to approximately US$60 per barrel in

2009, but then rebound with the economic recovery to reach US$87, US$100 and US$115 per barrel by 2015, 2020 and 2030 respectively (in year 2008 dollars). We have also reviewed the World Oil Outlook 2009 released by the Organization of the Petroleum Exporting Countries in July 2009 and the International Energy Outlook 2009 issued by Energy Information Administration of the US Department of Energy in May 2009 and noted that their projections were, in general, in the same direction as predicted by WEO 2009.

Given the increasing demand on energy, the Directors consider, and we concur with their view that, in the absence of any unforeseeable adverse factors that may have a substantial negative impact on the worldwide economy, the global demand for, and prices of, oil and gas will continue to increase in the foreseeable future.

6. Dilution Effect of the Acquisition on Shareholding of the Company

The shareholding of the Company as at the Latest Practicable Date and, for illustrative purpose, immediately after completion of the Acquisition are set out as follows:

	As at the Latest Practicable Date		**Immediately after completion of the Acquisition** *(Note 2)*	
	No. of Shares	*%*	*No. of Shares*	*%*
Orient Day Developments Limited *(Note 1)*	710,952,800	43.38	710,952,800	27.80
Charcon *(Note 1)*	–	–	395,650,000	15.47
Sub-total for Mr. Wong	710,952,800	43.38	1,106,602,800	43.27
Marvel and its beneficial owner	25,077,800	1.53	307,677,800	12.03
JV Partner	–	–	70,650,000	2.76
Dr. Lew	–	–	169,560,000	6.63
Other Directors	2,912,090	0.18	2,912,090	0.11
Public Shareholders	899,841,270	54.91	899,841,270	35.20
Total	1,638,783,960	100.00	2,557,243,960	100.00

Notes:

1. Orient Day Developments Limited and Charcon are wholly-owned by Mr. Wong.

2. Assuming the JV Partner elects to receive cash of US$12.5 million and 70,650,000 Consideration Shares for settlement of the consideration for the Phase 2 Acquisition.

As at the Latest Practicable Date, the shareholding of the public Shareholders was approximately 54.91%. Upon completion of the Acquisition, the shareholding of the public Shareholders shall be diluted to approximately 35.20%.

In view of the unsatisfactory financial performance of the Group for the two years ended 31 December 2009, the positive prospect of the Target Group and the potential future benefit to be derived from the Acquisition as mentioned in the previous sections, we consider that the dilution effect on the shareholding of the public Shareholders is commercially justifiable and fair and reasonable so far as the Independent Shareholders are concerned.

7. Financial Effects of the Acquisition

a) Earnings

As Oasis will become a wholly-owned subsidiary of the Company after completion of the Acquisition, the results of the Target Group will be consolidated into the financial statements of the Group. According to the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group set out in Appendix III to the Circular, the loss attributable to the owners of the Company would have been increased from HK$566.8 million to HK$570.2 million if the Acquisition had been completed on 1 January 2009.

Since the Target Group has not commenced any significant business operation yet, the Directors consider that the aforementioned negative impact of the Acquisition on the Group's earnings was temporary and they believe that the Acquisition will have contribution to the Group's earnings in the long run given the anticipated development and production plan of the Utah Gas and Oil Field mentioned in the Letter from the Board.

b) Net asset value

Upon completion of the Acquisition, the financial results of the Target Group will be consolidated into the financial statements of the Group. As stated in the unaudited pro forma consolidated statement of financial position set out in Appendix III to the Circular, had the Acquisition been completed on 31 December 2009, the total assets would have been increased from HK$473.9 million to HK$2,228.9 million no matter the consideration for the Phase 2 Acquisition was satisfied by cash in full or partly by cash and partly by the issue of Consideration Shares.

Had the Acquisition been completed on 31 December 2009, the total liabilities of the Enlarged Group would have been increased from HK$128.9 million to HK$326.3 million if the consideration for the Phase 2 Acquisition was satisfied by cash in full, and increased to HK$228.8 million if the consideration for the Phase 2 Acquisition was partly satisfied by cash and partly satisfied by the issue of Consideration Shares.

Had the Acquisition been completed on 31 December 2009, the net asset value attributable to the owners of the Company would have been increased from HK$328.8 million to HK$1,886.5 million if the consideration for the Phase 2 Acquisition was satisfied by cash in full, and increased to HK$1,984.0 million if the consideration for the Phase 2 Acquisition was partly satisfied by cash and partly satisfied by the issue of Consideration Shares.

c) Gearing

As indicated in the unaudited pro forma consolidated statement of financial position set out in Appendix III to the Circular, had the Acquisition been completed on 31 December 2009, the gearing of the Group, as expressed in the ratio of total liabilities to total assets, would have been

decreased from 0.27 to 0.15 if the consideration for the Phase 2 Acquisition was satisfied by cash in full, and decreased to 0.10 in case the consideration for the Phase 2 Acquisition was partly satisfied by cash and partly satisfied by the issue of Consideration Shares.

d) Cashflow

A refundable cash deposit of US$50 million (equivalent to approximately HK$390 million) has been paid by the Company in accordance with the terms of the Agreement (as supplemented by the Supplemental Agreement and the Further Supplemental Agreement). In addition, the consideration for the Phase 2 Acquisition of US$25 million (equivalent to approximately HK$195 million) shall be satisfied by cash in full or, at the discretion of the JV Partner, as to US$12.5 million (equivalent to approximately HK$97.5 million) by cash and as to US$12.5 million (equivalent to approximately HK$97.5 million) by the issue and allotment of Consideration Shares. It is the intention of the Company to finance the Consideration by its internal resources.

As at 31 December 2009, the cash and cash equivalent of the Group was approximately HK$224.3 million and a total fund of approximately HK$380 million has been raised by the Company subsequent to 31 December 2009 and up to the Latest Practicable Date. Apart from the refundable cash deposit of approximately HK$390 million already paid by the Company, there shall be a further cash outflow of a maximum amount of approximately HK$195 million in the event that the consideration for the Phase 2 Acquisition is to be settled by cash in full.

Concluding from the above, the Acquisition shall have a positive effect on the Group's net asset value and gearing while the cash position of the Group shall be adversely impacted. Having considered the positive outlook of the Target Group and the potential future benefit of the Acquisition to be brought to the Group, we are of the view that the negative financial impact of the Acquisition on the short-term earnings and cashflow is commercially justifiable.

8. Risks Factors

The Acquisition constitutes an investment in a new business sector for the Group and it is subject to various risk factors such as absence of operation track record of the Target Group, fluctuations on natural gas and petroleum prices, significant and continuous capital investment required for the development of the Utah Gas and Oil Field, uncertainty on actual development schedule and capital investment, uncertainty on the oil and gas reserves in the Utah Gas and Oil Field, laws and regulations for the oil and gas industry in the USA, country risk and scarcity in technical experts, etc. Further details of the risk factors are set out in the paragraph headed "RISK FACTORS" in the Letter from the Board.

Although the feasibility study performed by the Company revealed that the existing development plan of the Utah Gas and Oil Field is feasible and economical, Shareholders should be fully aware of the risks associated with the Acquisition and that any unexpected events may affect the outcome and investment return of the project in Utah Gas and Oil Field when assessing the Acquisition.

RECOMMENDATION

Having considered the principal factors and reasons stated above, we are of the view that the Acquisition is conducted in the ordinary and usual course of business and the terms of the Agreement (as supplemented by the Supplemental Agreement and the Further Supplemental Agreement) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent

Shareholders as a whole. As such, we recommend the Independent Board Committee to advise the Independent Shareholders, and recommend the Independent Shareholders, to vote in favor of the resolution to be proposed at the SGM to approve the Agreement (as supplemented by the Supplemental Agreement and the Further Supplemental Agreement) and transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Hercules Capital Limited
Louis Koo **Amilia Tsang**
Managing Director *Director*

1. FINANCIAL SUMMARY

The following is a summary of the consolidated results of the Group for the years ended 31 December 2009 and 2008, and for the period ended 31 December 2007, and the consolidated balance sheets as at 31 December 2007, 31 December 2008 and 31 December 2009.

The consolidated results of the Group for the years ended 31 December 2008 and 31 December 2009 and the consolidated balance sheets as at 31 December 2008 and 2009 were extracted from the annual report of the Company for the year ended 31 December 2009. The consolidated results of the Group for the period ended 31 December 2007 and the consolidated balance sheet as at 31 December 2007 was extracted from the annual report of the Company for the year ended 31 December 2007.

Consolidated Income Statement

	Year ended 31 December 2009	**Year ended 31 December 2008**	**Period from 1 April 2007 to 31 December 2007**
	HK$'000	*HK$'000*	*HK$'000*
REVENUE	195,530	78,783	55,620
Cost of services provided/cost of sales	(175,091)	(51,095)	(40,272)
Gross profit	20,439	27,688	15,348
Other income and gains	23,968	12,493	7,361
Selling and distribution costs	(5,345	(17,609)	(7,175)
Administrative expenses	(78,242)	(43,171)	(23,482)
Equity-settled share option expenses	–	–	(4,126)
Finance costs	(5,597)	(6,494)	(4,125)
Impairment losses on available-for-sale investments	(922,318)	–	–
Impairment losses on assets held by a subsidiary	–	–	(11,457)
Share of (losses) and profits of associates	(548)	(12,752)	61,884
(LOSS)/PROFIT BEFORE TAX	(967,643)	(39,845)	34,228
Income tax expense	(319)	(1,420)	(1,103)
(LOSS)/PROFIT FOR THE YEAR/PERIOD	(967,962)	(41,265)	33,125
(Loss)/Profit attributable to:			
Owners of the Company	(566,840)	(38,310)	38,422
Minority interests	(401,122)	(2,955)	(5,297)
	(967,962)	(41,265)	33,125

Consolidated statement of financial position

	31 December 2009	31 December 2008	31 December 2007
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	64,465	165,331	100,156
Prepaid land lease payments	–	18,868	18,329
Deposit paid	761	–	–
Goodwill	121,945	16,921	–
Interests in associates	–	420,903	460,490
Deferred tax assets	–	–	1,419
Available-for-sales financial assets	–	–	–
Total non-current assets	187,171	622,023	580,394
CURRENT ASSETS			
Inventories	8,707	9,083	–
Trade receivables	6,199	10,250	15,313
Prepayments, deposits and other receivables	47,521	11,195	7,743
Available-for-sales financial assets	–	–	–
Due from minority shareholders of subsidiaries	–	–	11
Due from associates	–	5,593	9,930
Cash and cash equivalents	224,314	15,787	31,617
Total current assets	286,741	51,908	64,614
CURRENT LIABILITIES			
Trade payables	5,700	8,767	9,800
Other payables and accruals	51,696	19,886	14,180
Interest-bearing bank borrowings, secured	–	8,382	7,101
Loan from immediate parent and ultimate controlling party	4,910	–	63,903
Due to minority shareholders of subsidiaries	–	5,167	–
Tax payable	319	16,451	16,464
Total current liabilities	62,625	58,653	111,448
NET CURRENT LIABILITIES	224,116	(6,745)	(46,834)

	31 December 2009 *HK$'000*	31 December 2008 *HK$'000*	31 December 2007 *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	411,287	615,278	533,560
NON-CURRENT LIABILITIES			
Due to minority shareholders of subsidiaries	–	16,337	–
Interest-bearing bank borrowings, secured	–	51,998	57,315
Loan from immediate parent and ultimate controlling party	66,300	25,000	–
Total non-current liabilities	66,300	93,335	57,315
Net assets	344,987	521,943	476,245
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	115,922	46,474	193,641
Reserves	212,906	466,822	276,307
	328,828	513,296	469,948
Minority interests	16,159	8,647	6,297
Total equity	344,987	521,943	476,245

2. FINANCIAL STATEMENTS OF THE GROUP

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	195,530	78,783
Cost of sales		(175,091)	(51,095)
Gross profit		20,439	27,688
Other income and gains	5	23,968	12,493
Selling and distribution costs		(5,345)	(17,609)
Administrative expenses		(78,242)	(43,171)
Finance costs	7	(5,597)	(6,494)
Impairment loss on available-for-sales investments		(922,318)	–
Share of losses of associates		(548)	(12,752)
LOSS BEFORE TAX	6	(967,643)	(39,845)
Income tax expense	10	(319)	(1,420)
LOSS FOR THE YEAR		(967,962)	(41,265)
Attributable to:			
Owners of the Company	12	(566,840)	(38,310)
Minority interests		(401,122)	(2,955)
		(967,962)	(41,265)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		(87.6) cents	(8.5) cents
Diluted		(87.6) cents	(8.5) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	2009	**2008**
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	(967,962)	(41,265)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	1,949	5,742
Income tax effect	–	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	1,949	5,742
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(966,013)	(35,523)
Attributable to:		
Owners of the Company	(564,911)	(33,778)
Minority interests	(401,102)	(1,745)
	(966,013)	(35,523)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	64,465	165,331
Prepaid land lease payments	15	–	18,868
Deposits paid		761	–
Goodwill	16	121,945	16,921
Interests in an associate	17	–	420,903
Available-for-sales investments	22	–	–
Total non-current assets		187,171	622,023
CURRENT ASSETS			
Inventories	19	8,707	9,083
Trade receivables	20	6,199	10,250
Prepayments, deposits and other receivables	21	47,521	11,195
Available-for-sales investments	22	–	–
Due from an associate	18	–	5,593
Cash and cash equivalents	24	224,314	15,787
Total current assets		286,741	51,908
CURRENT LIABILITIES			
Trade payables	25	5,700	8,767
Other payables and accruals	26	51,696	19,886
Interest-bearing bank borrowings, secured	27	–	8,382
Due to minority shareholders of subsidiaries	23	–	5,167
Tax payable		319	16,451
Loan from immediate parent and ultimate controlling party	28	4,910	–
Total current liabilities		62,625	58,653
NET CURRENT ASSETS/(LIABILITIES)		224,116	(6,745)
TOTAL ASSETS LESS CURRENT LIABILITIES		411,287	615,278

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT LIABILITIES			
Due to minority shareholders of subsidiaries	23	–	16,337
Interest-bearing bank borrowings, secured	27	–	51,998
Loan from immediate parent and ultimate controlling party	28	66,300	25,000
Total non-current liabilities		66,300	93,335
Net assets		344,987	521,943
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	115,922	46,474
Reserves	32(a)	212,906	466,822
		328,828	513,296
Minority interests		16,159	8,647
Total equity		344,987	521,943

Zhou Li Yang
Director

Cheung Kwok Yu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Attributable to the owners of the Company									
	Issued capital	Share premium account	Treasury shares	Capital reserve	Exchange fluctuation reserve	Share option reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000* *(note 32(a))*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	193,641	345,610	(10,556)	420,430	3,265	–	(482,442)	469,948	6,297	476,245
Total comprehensive income for the year	–	–	–	–	4,532	–	(38,310)	(33,778)	(1,745)	(35,523)
Issue of new shares	38,728	38,728	–	–	–	–	–	77,456	–	77,456
Share issue expenses	–	(330)	–	–	–	–	–	(330)	–	(330)
Capital reduction	(185,895)	–	–	–	–	–	185,895	–	–	–
Cancellation of share options	–	–	–	(16,579)	–	–	16,579	–	–	–
Increase in minority interests arising from acquisition of a subsidiary	–	–	–	–	–	–	–	–	4,095	4,095
At 31 December 2008 and 1 January 2009	46,474	384,008	(10,556)	403,851	7,797	–	(318,278)	513,296	8,647	521,943
Total comprehensive income for the year	–	–	–	–	1,929	–	(566,840)	(564,911)	(401,102)	(966,013)
Exchange fluctuation reserve realised upon disposal of a subsidiary *(note 36)*	–	–	–	–	(7,276)	–	–	(7,276)	–	(7,276)
Issue of new shares *(note 30)*	68,568	308,026	–	–	–	–	–	376,594	–	376,594
Share issue expenses	–	(530)	–	–	–	–	–	(530)	–	(530)
Equity-settled share options arrangements *(note 31)*	–	–	–	–	–	6,727	–	6,727	–	6,727
Share options exercised during the year	880	5,697	–	–	–	(1,649)	–	4,928	–	4,928
Share options lapsed during the year	–	–	–	–	–	(188)	188	–	–	–
Increase in minority interests arising from acquisition of a subsidiary *(note 33)*	–	–	–	–	–	–	–	–	399,094	399,094
Increase in minority interests arising from acquisition of a business *(note 35)*	–	–	–	–	–	–	–	–	5,039	5,039
Contribution from minority interests	–	–	–	–	–	–	–	–	7,000	7,000
Acquisition of minority interests *(note 34)*	–	–	–	–	–	–	–	–	(2,519)	(2,519)
At 31 December 2009	115,922	697,201*	(10,556)*	403,851*	2,450*	4,890*	(884,930)*	328,828	16,159	344,987

* These reserve accounts comprise the consolidated reserve of HK$212,906,000 (2008: HK$466,822,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(967,643)	(39,845)
Adjustments for:			
Finance costs		5,597	6,494
Gain on disposal of subsidiaries	36	(20,270)	–
Share of losses of associates		548	12,752
Interest income	5	(12)	(171)
Loss on disposal of property, plant and equipment		–	356
Depreciation of property, plant and equipment	14	9,160	5,664
Amortisation of prepaid land lease payments	15	459	473
Impairment loss on trade receivables	6	–	1,838
Impairment loss on available-for-sales investments	6	922,318	–
Write off of other receivables	6	955	1,206
Write back of other payables		–	(545)
Write-off of property, plant and equipment	14	5	7,716
Shortfall in profit of an associate guaranteed by an ex-joint venture partner	5	–	(9,800)
Equity-settled share option expenses	6,31	6,727	–
		(42,156)	(13,862)
Decrease/(increase) in inventories		376	(1,881)
(Increase)/decrease in trade receivables		(3,417)	5,112
Increase in prepayments, deposits and other receivables		(43,625)	(458)
Increase/(decrease) in trade payables		861	(10,395)
Increase/(decrease) in other payables and accruals		8,492	(24,468)
Cash used in operations		(79,469)	(45,952)
Income tax paid		–	(1,721)
Net cash flows used in operating activities		(79,469)	(47,673)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		12	171
Purchases of items of property, plant and equipment	13	(4,673)	(3,699)
Net cash and cash equivalent inflow from acquisition of subsidiaries	33	9	2,029
Net cash and cash equivalent inflow from disposal of subsidiaries	36	54,987	–
Proceeds from disposal of items of property, plant and equipment		–	70
Advances (to)/from an associate		(275)	4,337
Net cash flows from investing activities		50,060	2,908

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	43	167,464	34,653
Repayment of bank loans		(7,100)	(4,036)
Net proceeds from the exercise of the share options	30(a)(ix)	4,928	–
Advance from minority shareholders of subsidiaries		–	4,008
Contribution from minority shareholders		7,000	–
Advance from an immediate parent and ultimate controlling party		71,210	3,570
Interest paid		(5,597)	(6,444)
Net cash flows from financing activities		237,905	31,751
NET INCREASE/(DECREASED) IN CASH AND CASH EQUIVALENTS		208,496	(13,014)
Cash and cash equivalents at beginning of year		15,787	31,617
Effect of foreign exchange rate changes, net		31	(2,816)
CASH AND CASH EQUIVALENTS AT END OF YEAR		224,314	15,787
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		224,314	15,787

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	212,420	527,076
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	10,684	80
Cash and cash equivalents	24	206,624	8,882
Total current assets		217,308	8,962
CURRENT LIABILITIES			
Other payables and accruals	26	4,073	2,003
Loan from immediate parent and ultimate controlling party	28	3,112	–
Total current liabilities		7,185	2,003
NET CURRENT ASSETS		210,123	6,959
TOTAL ASSETS LESS CURRENT LIABILITIES		422,543	534,035
NON-CURRENT LIABILITIES			
Due to subsidiaries	17	(11,256)	(5,350)
Loan from immediate parent and ultimate controlling party	28	(66,300)	(25,000)
Total non-current liabilities		(77,556)	(30,350)
Net assets		344,987	503,685
EQUITY			
Issued capital	30	115,922	46,474
Reserves	32 (b)	229,065	457,211
Total equity		344,987	503,685

Zhou Li Yang	**Cheung Kwok Yu**
Director	*Director*

NOTES TO THE FINANCIAL STATEMENTS

31 December 2009

1. CORPORATE INFORMATION

Pearl Oriental Innovation Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is situated at Suite 1908, 19/F., 9 Queen's Road Central, Hong Kong.

In the opinion of the directors, the Company's immediate parent and ultimate controlling party is Orient Day Developments Limited, a company incorporated in the British Virgin Islands with limited liabilities.

During the year, the Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") have not changed during the year and were involved in:

- provision of logistics and related services; and
- processing and sales of plastic recycling materials.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the" Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for buildings, which are stated in the consolidated statement of financial position at valuation less accumulated depreciation and any impairment losses.

These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The Group has incurred a significant loss of approximately HK$967,962,000 for the year ended 31 December 2009. Excluding the effect of impairment losses on available-for-sales investments incurred for the year of approximately HK$922,318,000 the operating loss for the year is approximately HK$45,644,000. Despite of the above, these financial statements have been prepared on the basis that the Group will continue to operate as a going concern because the Group has net current assets and net assets of approximately HK$224,116,000 and HK$ 344,987,000, respectively, as at 31 December 2009. Moreover, as disclosed in notes 42(b) and (c) to the financial statements, subsequent to the end of the reporting period, the Company has entered into arrangements to increase its issued share capital with an aggregate gross proceeds of approximately HK$66.3 million already received and HK$319 million to be received on the completion by the Company.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from inter-company transactions and inter-company balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Contingent consideration is recognised if the adjustment is probable and can be measured reliably. Subsequent measurement of the contingent consideration affects goodwill.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 CHANGE IN ACCOUNTION POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 Revenue – Determining whether an entity is acting as a principal or as an agent
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)*	Amendments to a number of HKFRSs except for Amendment to HKFRS 5

* Included in Improvements to HKFRSs 2009 (as issued in May 2009).

Other than as further explained below regarding the impact of HKAS 1 (Revised) and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

(a) HKFRS 8 Operating Segments

HKFRS 8, which replaces HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(b) HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In

addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions [2]
HKFRS 3 (Revised)	Business Combinations [1]
HKFRS 9	Financial Instruments [6]
HKAS 24 (Revised)	Related Party Disclosures [5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [1]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues [3]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement [5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners [1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments [4]
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary [1]
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases [2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 38 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2010

[3] Effective for annual periods beginning on or after 1 February 2010

[4] Effective for annual periods beginning on or after 1 July 2010

[5] Effective for annual periods beginning on or after 1 January 2011

[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint Ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group, has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the Cost of Business Combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of Non-financial Assets other than Goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, goodwill and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is

reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case, the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related Parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, an individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, Plant and Equipment and Depreciation

Property, plant and equipment other than buildings are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Buildings are stated at valuation less accumulated depreciation and any impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	Over the shorter of the lease terms and their estimated useful lives
Leasehold improvements	Over the shorter of the lease terms and land use rights or 5 years
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	16⅔% to 33⅓%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and Other Financial Assets

Initial Recognition and Measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables and amount due from associates.

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance cost or operating expenses.

Available-for-sale Financial Investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. The Group has investments in unlisted shares that are not traded in an active market but that are classified as available-for-sale investment.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Derecognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Assets Carried at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale Financial Investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, the amount of the loss measured as the difference between the assets's carrying mount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial assets. Impairment losses on these assets are not reversed.

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank borrowings and amount due to minority shareholders of subsidiaries.

Subsequent Measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and Borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Convertible Bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market interests rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair Value of Financial Instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue Recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the provision of logistic services, when the services are rendered;

(ii) rental income, on a time proportion basis over the lease terms;

(iii) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based Payment Transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of the each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of comprehensive income for a year represents the movement in the cumulative expense recognised as at the beginning and end of that year.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new

award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other Employee Benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Foreign Currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Treasury Shares

Treasury shares are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Contingent Liabilities in Respect of Litigations and Claims

The Group has been engaged in a number of litigations and claims during the year. Contingent liabilities arising from these litigations and claims have been assessed by management with reference to legal advice. Provisions on the possible obligation, if appropriate, are made based on management's best estimates and judgements.

Control over Taiyuan Sanxing Coal Gasificiation (Group) Co., Limited ("Taiyuan Sanxing")

The Group assesses whether it has control over the financial and operating policies of Taiyuan Sanxing. As the Group was not provided with the financial and operating information of Taiyuan Sanxing, the Group is unable to exercise its power on the financial and operating matters of Taiyuan Sanxing. The investment in Taiyuan Sanxing is therefore classified as available-for-sale investments.

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was HK$121,945,000 (2008: HK$16,921,000). More details are set out in note 16 to the financial statements.

Impairment of Non-financial Assets (Other Than Goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating units exceeds it recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of Available-for-sale Investments

The Group classifies certain assets as available-for-sale investments and stated at cost less impairment losses. The Group assesses at the end of each reporting period whether there is any objective evidence that the available-for-sale investments are impaired. At 31 December 2009, impairment losses of approximately HK$922,318,000 (2008: Nil) have been recognised for available-for-sale assets. The net carrying amount of available-for-sale assets was Nil (2008: Nil). More details are set out in note 22 to the financial statements.

Depreciation and Useful Lives

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technologies changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the logistics and related services segment is the provision of logistic business and related services; and

(b) the plastic recycling segment is procuring, processing and sales of plastic recycling materials.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income and finance costs are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate assets as these liabilities are managed on a group basis.

Year ended 31 December 2009

	Provision of logistics and related services segment *HK$'000*	Plastic recycling segment *HK$'000*	Total *HK$'000*
Segment revenue:			
Service income	28,266	–	28,266
Gross rental income	3,826	–	3,826
Sales of plastic recycling materials	–	163,438	163,438
	32,092	163,438	195,530
Segment results	(8,822)	(16,686)	(25,508)
Other income and gains			23,968
Unallocated expenses			(959,958)
Loss from operations			(961,498)
Finance costs			(5,597)
Share of losses of an an associate			(548)
Loss before tax			(967,643)
Income tax expense			(319)
Loss for the year			(967,962)
Segment assets	8,450	241,710	250,160
Unallocated assets			223,752
Total assets			473,912
Segment liabilities	8,082	17,541	25,623
Unallocated liabilities			103,302
Total liabilities			128,925
Capital expenditure	415	4,236	4,651
Unallocated capital expenditure			22
			4,673
Depreciation and amortisation	4,245	4,653	8,898
Unallocated depreciation and amortisation			262
			9,160
Impairment loss on available-for-sales investments			922,318
Write-off of other receivables			955

Year ended 31 December 2008

	Provision of logistics and related services segment *HK$'000*	Plastic recycling segment *HK$'000*	Total *HK$'000*
Segment revenue:			
Service income	66,928	–	66,928
Gross rental income	11,855	–	11,855
Sales of plastic recycling materials	–	–	–
	78,783	–	78,783
Segment results	(9,398)	(968)	(10,366)
Other income and gains			12,493
Unallocated expenses			(22,726)
Loss from operations			(20,599)
Finance costs			(6,494)
Share of losses of associates			(12,752)
Loss before tax			(39,845)
Income tax expense			(1,420)
Loss for the year			(41,265)
Segment assets	140,456	78,739	219,195
Unallocated assets			454,736
Total assets			673,931
Segment liabilities	95,644	8,060	103,704
Unallocated liabilities			48,284
Total liabilities			151,988
Capital expenditure*	2,012	65,520	67,532
Unallocated capital expenditure			520
			68,052
Depreciation and amortisation	5,296	143	5,439
Unallocated depreciation and amortisation			698
			6,137
Write-off of other receivables	1,178	28	1,206
Impairment loss on trade receivables			1,838

* Capital expenditure consist of additions to property, plant and equipment including assets from acquisition of subsidiaries (note 14 and 33).

Geographical Information

(a) Revenue from External Customers

The revenue information is based on the location of the customers.

Year ended 31 December 2009	**Hong Kong** *HK$'000*	**The PRC** *HK$'000*	**France** *HK$'000*	**Total** *HK$'000*
Segment revenue:				
Service income	–	28,266	–	28,266
Gross rental income	–	3,826	–	3,826
Sales of plastic recycling materials	162,045	–	1,393	163,438
	162,045	32,092	1,393	195,530

Year ended 31 December 2008	**Hong Kong** *HK$'000*	**The PRC** *HK$'000*	**France** *HK$'000*	**Total** *HK$'000*
Segment revenue:				
Service income	–	66,928	–	66,928
Gross rental income	–	11,855	–	11,855
Sales of plastic recycling materials	–	–	–	–
	–	78,783	–	78,783

(b) Non-Current Assets

Year ended 31 December 2009	**Hong Kong** *HK$'000*	**The PRC** *HK$'000*	**France** *HK$'000*	**Total** *HK$'000*
Non-current assets	73,352	–	113,819	187,171

Year ended 31 December 2008	**Hong Kong** *HK$'000*	**The PRC** *HK$'000*	**France** *HK$'000*	**Total** *HK$'000*
Non-current assets	432,177	120,028	69,818	622,023

Information about a Major Customer

Revenue of approximately HK$20,442,000 (2008: HK$21,996,000) was derived from sales to a single customer during the year ended 31 December 2009.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents service income from logistics and other services rendered, gross rental income and sales of plastic recycling materials during the year.

An analysis of revenue, other income and gains is as follows:

	2009 *HK$'000*	2008 *HK$'000*
Revenue		
Service income	28,266	66,928
Gross rental income	3,826	11,855
Sales of plastic recycling materials	163,438	–
Total revenue	195,530	78,783
Other income and gains		
Bank interest income	12	171
Gain on disposal of subsidiaries *(note 36)*	20,270	–
Exchange gains, net	3,012	1,763
Write-back of other payables	–	545
Shortfall in profit of an associate guaranteed by an ex-joint venture partner	–	9,800
Others	674	214
Total other income and gains	23,968	12,493
Total revenue, other income and gains	219,498	91,276

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2009 *HK$'000*	2008 *HK$'000*
Cost of services provided and goods sold*	175,091	51,095
Amortisation of prepaid land lease payments *(note 15)*	459	473
Depreciation of property, plant and equipment* *(note 14)*	9,160	5,664
Write-off of property, plant and equipment *(note 14)*	5	7,716
Minimum lease payments under operating leases: Land and buildings	4,298	4,606
Auditors' remuneration:		
Annual audit:		
Current year	850	750
Under-provision for the previous years	–	140
Other assurance services	420	–
	1,270	890
Impairment loss on trade receivables	–	1,838
Write-off of other receivables	955	1,206
Impairment loss on available-for-sales investments *(note 22)*	922,318	–
Staff costs (including directors' remuneration *(note 8)*):		
Wages and salaries	28,689	24,132
Equity-settled share option expenses *(note 31)*	6,727	–
Pension scheme contributions	168	179
	35,584	24,311
Exchange gains, net	(3,012)	(1,763)
Bank interest income	(12)	(171)

* The cost of services provided and goods sold included depreciation of property, plant and equipment of approximately HK$2,480,000 (2008: HK$2,552,000).

7. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest on bank advances and other borrowings wholly repayable within five years	3,570	5,359
Bank overdraft interest	4	3
Interest on other loans	1,738	882
Others	285	250
	5,597	6,494

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2009	2008
	HK$'000	*HK$'000*
Fees	1,272	1,051
Other emoluments:		
Salaries, allowances and benefits in kind	10,536	3,896
Pension scheme contributions	49	60
Equity-settled share option expenses*	5,786	–
	16,371	3,956
	17,643	5,007

* During the year, the directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

Year ended 31 December 2009

	Directors' fees	Salaries, allowances and benefits in kind	Equity-settled share option expenses	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Wong Kwan	–	1,800	562	12	2,374
Cheung Kwok Yu	–	1,216	562	12	1,790
Zheng Yingsheng	–	871	562	–	1,433
Zhou Li Yang	–	1,320	562	12	1,894
Johnny Yuen	–	300	562	12	874
Lew Mon Hung (appointed on 3 December 2009)	–	5,000	1,103	–	6,103
Chan Yiu Keung (resigned on 6 February 2009)	–	29	–	1	30
	–	10,536	3,913	49	14,498
Independent non-executive directors					
Fung Hing Chiu, Cyril	150	–	562	–	712
Lam Ka Wai, Graham	930	–	562	–	1,492
Yu Jian Meng (appointed on 19 September 2009)	67	–	187	–	254
Dong Zhixiong (resigned on 1 October 2009)[@]	125	–	562	–	687
	1,272	–	1,873	–	3,145
Total	1,272	10,536	5,786	49	17,643

Year ended 31 December 2008

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Equity-settled share option expenses *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors					
Wong Kwan	–	1,750	–	12	1,762
Cheung Kwok Yu	–	1,158	–	12	1,170
Zheng Yingsheng	–	412	–	–	412
Zhou Li Yang	–	576	–	12	588
Johnny Yuen	–	300	–	12	312
Chan Yiu Keung	–	300	–	12	312
	–	4,496	–	60	4,556
Independent non-executive directors					
Fung Hing Chiu, Cyril	150	–	–	–	150
Lam Ka Wai, Graham (appointed on 3 October 2008)	37	–	–	–	37
Dong Zhixiong	150	–	–	–	150
Lai Shi Hong, Edward (resigned on 3 October 2008)	114	–	–	–	114
	451	–	–	–	451
Total	451	4,496	–	60	5,007

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

@ Dong Zhixiong was a director of the Company during the year. He resigned as a director and became a consultant of the Company effective from 1 October 2009 for two years.

The number of directors, whose remuneration fell within the following bands is as follows:

	Number of directors 2009	2008
Nil to HK$1,000,000	5	8
HK$1,000,001 to HK$2,000,000	4	2
HK$2,000,001 to HK$5,000,000	1	–
Over HK$5,000,000	1	–
	11	10

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2008: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two non-director, highest paid employees for the year ended 31 December 2008 are as follows:

	2009 *HK$'000*	2008 *HK$'000*
Salaries, allowances and benefits in kind	–	1,104
Pension scheme contributions	–	24
	–	1,128

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
Nil to HK$1,000,000	–	2

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2009 *HK$'000*	2008 *HK$'000*
Current tax:		
Hong Kong profits tax	319	–
PRC corporate income tax	–	1
Deferred tax: *(note 29)*		
Overprovision of deferred tax assets in prior years	–	1,419
Tax charge for the year	319	1,420

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2009		2008	
	HK$'000	*%*	*HK$'000*	*%*
Loss before tax	(967,643)		(39,845)	
Tax at statutory tax rate	(162,815)	16.8	(9,724)	(24.4)
Tax effect of share of profit and losses of an associate	90	–	3,917	10.0
Income not subject to tax:				
Gain on disposal of subsidiaries	(3,344)	0.3	–	–
Others	(389)	–	(8,348)	(20.9)
Expenses not deductible for tax:				
Impairment loss on available-for-sales investments	152,182	(15.7)	–	–
Others	7,412	(0.7)	7,388	18.4
Tax losses not yet recognised	7,183	(0.7)	6,768	16.9
Overprovision for deferred tax assets in prior years	–	–	1,419	3.6
Tax charge at the Group's effective rate	319	–	1,420	3.6

11. DIVIDENDS

The Directors did not recommend a final dividend for the year ended 31 December 2009 (2008: Nil).

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2009 includes a loss of HK$546,417,000 (2008: HK$10,624,000) which has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2008 and 2009 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic loss per share are based on:

	2009	2008
	HK$'000	*HK$'000*
Earnings		
Loss attributable to equity holders of the Company, used in the basic loss per share calculation	566,840	38,310

	Number of shares (thousand)	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation:		
Issued ordinary shares at 1 January	447,182	383,059
Effect of shares issued during the year	199,763	64,123
	646,945	447,182

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Freehold land	Leasehold improvements	Furniture fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2009						
At 1 January 2009:						
Cost or valuation	120,937	4,555	1,270	54,486	2,121	183,369
Accumulated depreciation and impairment	(2,597)	–	(845)	(13,840)	(756)	(18,038)
Net carrying amount	118,340	4,555	425	40,646	1,365	165,331
At 1 January 2009, net of accumulated depreciation and impairment	118,340	4,555	425	40,646	1,365	165,331
Additions	27	–	–	4,646	–	4,673
Disposal of subsidiaries *(note 36)*	(85,312)	–	(257)	(11,946)	(840)	(98,355)
Written off	–	–	–	(5)	–	(5)
Depreciation provided during the year	(3,571)	–	(119)	(5,154)	(316)	(9,160)
Exchange realignment	1,623	(61)	4	411	4	1,981
At 31 December 2009, net of accumulated depreciation and impairment	31,107	4,494	53	28,598	213	64,465
At 31 December 2009:						
Cost or valuation	32,278	4,494	85	31,006	446	68,309
Accumulated depreciation and impairment	(1,171)	–	(32)	(2,408)	(233)	(3,844)
Net carrying amount	31,107	4,494	53	28,598	213	64,465

	Buildings HK$'000	Freehold land HK$'000	Leasehold improvements HK$'000	Furniture fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Analysis of cost or valuation:						
At cost	32,278	4,494	85	31,006	446	68,309
At valuation	–	–	–	–	–	–
	32,278	4,494	85	31,006	446	68,309
31 December 2008						
At 1 January 2008:						
Cost or valuation	85,121	–	1,471	27,227	1,449	115,268
Accumulated depreciation	–	–	(944)	(13,698)	(470)	(15,112)
Net carrying amount	85,121	–	527	13,529	979	100,156
At 1 January 2008, net of accumulated depreciation	85,121	–	527	13,529	979	100,156
Additions	1,148	–	132	1,529	890	3,699
Acquisition of subsidiaries *(note 33(b))*	27,312	4,117	–	32,924	–	64,353
Disposals	–	–	(57)	(237)	(132)	(426)
Written off	–	–	–	(7,716)	–	(7,716)
Depreciation provided during the year	(2,609)	–	(199)	(2,442)	(414)	(5,664)
Exchange realignment	7,368	438	22	3,059	42	10,929
At 31 December 2008, net of accumulated depreciation and impairment	118,340	4,555	425	40,646	1,365	165,331
At 31 December 2008:						
Cost or valuation	120,937	4,555	1,270	54,486	2,121	183,369
Accumulated depreciation and impairment	(2,597)	–	(845)	(13,840)	(756)	(18,038)
Net carrying amount	118,340	4,555	425	40,646	1,365	165,331
Analysis of cost or valuation:						
At cost	31,485	4,555	1,270	54,486	2,121	93,917
At valuation	89,452	–	–	–	–	89,452
	120,937	4,555	1,270	54,486	2,121	183,369

Notes:

(a) The Group's buildings located in the PRC had been disposed of through the disposal of subsidiaries (note 36) during the year.

(b) The carrying amount of the Group's buildings at 31 December 2009 would have been HK$Nil (2008: HK$92,030,000) had they been stated at cost less accumulated depreciation.

(c) At 31 December 2008, certain of the Group's buildings situated in the PRC with an aggregate carrying value of HK$86,896,000 together with the Group's prepaid land lease payments of HK$19,341,000 (note 15) were pledged to secure the bank loans granted to the Group (note 27). The pledged buildings and prepaid land lease payments were disposed of through the disposal of the related subsidiary during the year (note 36) and the pledge has therefore been released.

(d) The Group's freehold land is located in France.

15. PREPAID LAND LEASE PAYMENTS

The Group's prepaid lease payments represented its interest in land use rights and their net carrying value is analysed as follows:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Carrying amount at beginning of year	19,341	18,855
Amortisation during the year	(459)	(473)
Exchange realignment	200	959
Disposal of a subsidiary during the year *(note 36)*	(19,082)	–
Carrying amount at 31 December	–	19,341
Current portion included in prepayments, deposits and other receivables	–	(473)
Non-current portion	–	18,868
Analysed into:		
Situated in the PRC under a medium term lease	–	19,341

At 31 December 2008, certain of the Group's the prepaid land lease payments of HK$19,341,000 together with the Group's buildings situated in the PRC with an aggregate carrying value of HK$86,896,000 (note 14) were pledged to secure the bank loans granted to the Group (note 27). The pledged buildings and prepaid land lease payments were disposed of through the disposal of subsidiaries during the year (note 36) and the pledge has therefore been released.

16. GOODWILL

Group

	HK$'000
At 31 December 2008:	
Cost at 1 January 2008, net of accumulated impairment	–
Acquisition of a subsidiary *(note 33(b))*	16,921
At 31 December 2008	16,921
At 31 December 2008:	
Cost	16,921
Accumulated impairment	–
Net carrying amount	16,921
At 31 December 2009:	
Cost at 1 January 2009, net of accumulated impairment	16,921
Acquisition of minority interests *(note 34)*	42,985
Acquisition of a business *(note 35)*	62,039
Cost and carrying amount at 31 December 2009	121,945
At 31 December 2009:	
Cost	121,945
Accumulated impairment	–
Net carrying amount	121,945

Impairment Testing of Goodwill

Goodwill acquired through business combinations and acquisition of a business has been allocated to the relevant cash-generating units for impairment testing as follows:

	HK$'000
Carrying amount of goodwill relevant to the processing and sales of plastic recycling material in the ERC Group	59,906
Carrying amount of goodwill relevant to the processing and sales of plastic recycling material in the IBE Group	62,039
	121,945

Processing and Sales of Plastic Recycling Materials in the ERC Group

The recoverable amount of the processing and sales of plastic recycling materials in the ERC Group cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17% (2008:19%) and cash flows beyond the five-year period are extrapolated using a growth rate which does not exceed the long term average growth rate of the processing and sales of plastic recycling materials industry.

Key assumptions were used in the value in use calculation of the processing and sales of plastic recycling materials in the ERC Group cash-generating unit for 31 December 2008 and 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

	2009	**2008**
	%	%
Gross margin	40	40
Growth rate	43	43
Discount rate	17	19

Management determined the budgeted gross-margin based on past performance and its expectation for market development. The weighted average growth rates used are based on the industry research. The discount rates used are pre-tax that reflected current market assessments of the time value of money and the risks specific risks relating to the relevant segments.

Processing and Sales of Plastic Recycling Materials in the IBE Group

The recoverable amount of the processing and sales of plastic recycling materials in the IBE Group cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12% (2008: N/A) and cash flows beyond the five-year period are extrapolated using a growth rate which does not exceed the long term average growth rate of the processing and sales of plastic recycling materials industry.

Key assumptions were used in the value in use calculation of the processing and sales of plastic recycling materials in the IBE cash-generating unit for 31 December 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

	2009
	%
Gross margin	7
Growth rate	5
Discount rate	12

Management determined the budgeted gross-margin based on past performance and its expectation for market development. The weighted average growth rates used are based on the industry research. The discount rates used are pre-tax that reflected current market assessments of the time value of money and the specific risks relating to the relevant segments.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2009	**2008**
	HK$'000	*HK$'000*
Unlisted shares, at cost	–	–
Due from subsidiaries	726,156	527,076
	726,156	–
Less: Impairment	(513,736)	–
	212,420	527,076

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries of the Company are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Champion Merry Investment Limited	The British Virgin Islands (the "BVI")	US$1	–	100%	Investment holding
China Coal Energy Holdings Limited *(note (a))*	Hong Kong	HK$100,000,000	–	55.11%	Coal gasification and coal mining
China Environmental Resources Limited	Hong Kong	HK$10,000	–	60%	Investment holding
Exploitation Ressources Internationales, S.A.#	France	EURO153,800	–	60%	Plastic recycling
Euro Resources China Limited	Hong Kong	HK$10,000	–	60%	Investment holding
Get Wealthy Investments Limited	BVI	US$1	–	100%	Investment holding
Grand Huge International Limited	Hong Kong	HK$10,000	–	100%	Provision of corporate services
IB Environmental Plastic Limited	Hong Kong	HK$1	–	60%	Plastic recycling
Pearl Oriental International Assets Limited	Hong Kong	HK$1	–	100%	Provision of corporate services
PO (SZ) Logistics Limited	BVI	US$1	–	100%	Provision of logistics
Pearl Oriental Logistics (Shenzhen) Limited# *(note (b))*	The People's Republic of China (the "PRC")	US$400,000	–	100%	Provision of logistics services
Pearl Oriental Logistics Sino Limited	Hong Kong	HK$22,000,000	–	60%	Investment holding
Wuhan Pearl Oriental Logistics Limited *(note (b))*	The PRC	RMB4,007,157	–	60%	Provision of logistics services

\# Not audited by Ascenda Cachet CPA Limited (formerly Cachet Certified Public Accountants Limited)

Note a: This subsidiary was acquired by the Company during the year, details of which are set out in note 33(a) to the financial statements.

Note b: These subsidiaries are registered as a Sino-foreign investment enterprise under the PRC laws.

The above table lists the subsidiaries of the Company which in the opinion of the directors, principally affects the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particular of excessive length.

18. INTERESTS IN AN ASSOCIATE

	Group 2009	2008
	HK$'000	*HK$'000*
Share of net assets	–	365,012
Goodwill arising from acquisition	–	55,891
	–	420,903
Due from associates	–	5,593
	–	426,496

The amount due from the associate was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the Group's interests in the associate are as follows:

Name	Place of incorporation/ registration and operations	Particular of issued shares held	Percentage of ownership interest attributable to the Group	Principal activities
China Coal Energy Holdings Limited ("China Coal")	Hong Kong	HK$100,000,000	55.11% (2008: 39.93%)	Coal gasification and coal mining

During the year, the Company further acquired from independent third parties an aggregate of 15.18% equity interests in China Coal through the acquisition of the 100% equity interests in Get Wealthy Investments Limited ("Get Wealthy") (which holds 15% equity interests in China Coal) and the remaining 0.18% equity interests in China Coal. Upon the completion of which on 15 July 2009, China Coal became an indirect non-wholly-owned subsidiary of the Company. These interests in the associate have therefore formed part of the consideration of the acquisition of Get Wealthy/China Coal as set out in note 33(a) to the financial statements.

	HK$'000
Balance of interests in an associate at 1 January 2009	420,903
Shares of losses of China Coal during the period from 1 January 2009 to 14 July 2009	(548)
	420,355
Transfer to form part of the consideration of the acquisition of Get Wealthy/China Coal *(note 33(a))*	(420,355)
Balance of interests in an associate at 31 December 2009	–

The following table illustrated the summarised financial information of China Coal extracted from their financial statements for the year ended 31 December 2008:

	2008
	HK$'000
Revenue	–
Loss for the year	(9,101)
Available-for-sale investments	944,312
Other assets	9
Total assets	944,321
Total liabilities	(31,907)
Net assets	912,414

19. INVENTORIES

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Raw materials	8,707	9,083

20. TRADE RECEIVABLES

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Trade receivables	9,142	13,130
Less: Impairments	(2,943)	(2,880)
	6,199	10,250

At 31 December 2008, included in the trade receivables were receivables of a then subsidiary of the Group in the amount of approximately RMB372,000 (equivalents to approximately HK$420,000) (note 27(d)) pledged to a bank as securities for the bank loan granted to the then subsidiary of the Group, which was disposed of during the year (note 36).

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally two months, extending up to three months for major customers. For the plastics recycling business, the Group's trading terms with its customers are mainly in advance, except for the well acquainted customers, credit terms may be allowed. The credit period is generally one month. Each customer has a maximum credit limit as approved from the management from time to time. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of reporting period, based on the invoice date, is as follows:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Less than 3 months	5,995	9,063
3 months to 6 months	96	194
6 months to 12 months	108	993
	6,199	10,250

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

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
At beginning of year	2,880	1,042
Impairment loss recognised	–	1,838
Exchange realignment	63	–
At end of year	2,943	2,880

At 31 December 2009, the Group's trade receivables of HK$1,838,000 (2008: HK$1,838,000) were individually determined to be impaired with a carrying amount before provision of HK$1,838,000 (2008: HK$1,838,000). The Group does not hold any collateral over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Neither past due nor impaired	5,995	9,063
3 to 6 months past due	96	194
6 to 12 months past due	108	993
	6,199	10,250

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Company does not hold any collateral or other credit enhancements over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current portion of prepaid land lease payments *(note 15)*	–	473	–	–
Prepayments	948	3,277	–	–
Rental and other deposits paid *(note (a))*	2,756	4,519	–	–
Security deposits for the legal case *(note (b))*	10,446	–	10,446	–
Trade deposits *(note (c))*	32,702	–	–	–
Other receivables	669	2,926	238	80
	47,521	11,195	10,684	80

Notes:

(a) Include in the rental and other deposits is a deposit of RMB1,650,000 (equivalent to approximately HK$1,725,000) (2008: RMB1,500,000 (equivalent to approximately HK$1,692,000)) paid in respect of a proposed acquisition undertaken by Euro Resources China Limited ("ERC"), which was a 60%-owned subsidiary as at 31 December 2009. On 14 July 2007, ERC entered into a conditional sale and purchase agreement with an independent third party, Mr. He Zhaorong ("Mr. He"), in relation to the acquisition of a 60% equity interest in Foshan Shunde Euro Resources Wanhai Manufacturing Limited ("Foshan") at a total consideration of RMB9,000,000 (equivalent to HK$$10,153,800).

On the same day, ERC further entered into a supplemental agreement with Mr. He, pursuant to which, ERC paid a deposit of RMB1,500,000 (equivalent to HK$1,692,000) to Mr. He in respect of the proposed acquisition.

On 25 March 2009, ERC entered into a supplemental agreement with Mr. He, pursuant to which, the completion date of the proposed acquisition has been extended to 31 March 2011. During the year, a further amount of RMB150,000 (equivalent to approximately HK$170,000) was paid by the Group.

As at 31 December 2009 and 2008, the Group had a capital commitment of RMB7,350,000 (equivalent to approximately HK$8,352,000 (2008: RMB7,500,000 (equivalent to approximately HK$8,461,000)) (note 39) in respect of the outstanding purchase consideration.

(b) During the year, the Company paid a sum of HK$10,446,000 to the Court as the security for payment of judgement debt and the plaintiffs' cost in respect of the legal claims with the ex-directors of a disposed subsidiary. Further details are set out in note 41(c) to the financial statements.

(c) The trade deposits paid of HK$32,702,000 as at 31 December 2009 represented the purchase deposits paid to the suppliers. The related goods were received by the Group subsequent to the end of reporting period in January 2010.

None of the above assets is either past due or impaired.

22. AVAILABLE-FOR-SALES INVESTMENTS

The available-for-sales investments grouped in current assets are as follows:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities, at cost:				
Balance at 1 January	12,412	12,412	12,412	12,412
Written off during the year	(12,412)	–	(12,412)	–
Balance at 31 December	–	12,412	–	12,412
Impairments:				
Balance at 1 January	12,412	12,412	12,412	12,412
Written off during the year	(12,412)	–	(12,412)	–
Balance at 31 December	–	12,412	–	12,412
Net carrying value	–	–	–	–

The above investment represents certain equity securities of China Technology Global Corporation which were designated as available-for-sale financial assets on 1 January 2005. The securities have been fully impaired because China Technology Global Corporation was de-listed from the Over-The-Counter Bulletin Board of the United States of America in 2006. The above investment was written-off during the year as the directors were of the opinion that there is unlikely an recover of the investment.

The available-for-sales investments grouped in non-current assets are as follows:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Unlisted equity investment at cost *(note 33)*	922,318	–
Impairment	(922,318)	–
Net carrying value	–	–

The non-current available-for-sales investments represented an 100% equity interests in Taiyuan Sanxing Coal Gasification (Group) Co., Limited (太原市三興煤炭氣化有限公司) ("Taiyuan Sanxing") held by China Coal.

As at 31 December 2008, the Group had 39.93% equity interest in China Coal and classified as "Interests in an associate" (note 18) and shared its results during that year. As detailed in note 33(a) to the financial statements, the Group has further acquired from independent third parties an aggregate of 15.18% equity interest in China Coal through the acquisition of the entire equity interests in Get Wealthy Investments Limited (which holds 15% equity interests in China Coal) and the remaining equity interest in China Coal at an aggregate consideration of HK$58,000,000. Upon the completion of the acquisition, the Group's equity interest in China Coal increased from 39.93% to 55.11% and the Group obtained control over the financial and operating policies of China Coal. China Coal became an indirect non-wholly-owned subsidiary of the Company which has an effective equity interest of 55.11%. China Coal's results have been equity picked-up until 14 July 2009 and fully consolidated into the Group's consolidated financial statements since 15 July 2009.

The principal activity of China Coal is investment holding and the principal asset of China Coal is an 100% equity interest in Taiyuan Sanxing. Taiyuan Sanxing was established in the PRC with limited liabilities and the Taiyuan Sanxing Group is principally engaged in the coal gasification and coal mining. The principal assets of Taiyuan Sanxing and its subsidiary Shanxi Sanxing Coal and Coke Limited (山西三興煤焦有限公司) ("Shanxi Sanxing") (collectively, the "Taiyuan Sanxing Group") are certain coal mines.

Pursuant to a conditional agreement dated 15 July 2006 between the Company and Mr. Zhang Jingyuen (formerly known as "Zhang Genyu") ("Mr. Zhang") (張景淵), Mr. Zhang has guaranteed the Company that the audited net profit of China Coal determined in accordance with HKFRSs for the three financial years ended 31 December 2009 should in aggregate be not less than HK$600,000,000. Should the aggregate audited net profit of China Coal fall below HK$600,000,000, Mr. Zhang will pay the shortfall to the Company on a dollar-to-dollar basis after the issuance of China Coal's audit reports for the three financial years ended 31 December 2009. Mr. Zhang had pledged all his 44.89% equity interests in China Coal (the "Share Pledge") as collateral for his performance under the Profit Guarantee in a the deed of charge dated 25 October 2006 (the "Deed of Charge").

As announced by the Company on 12 August 2008, on 7 August 2008, Mr. Zhang issued and served a writ (the "Writ") in the High Court of Hong Kong against, inter alia, the Company, Get Wealthy Investment Limited ("Get Wealthy"), Champion Merry Investment Limited ("Champion", a subsidiary of the Company) and Mr. Wong Kwan, Chairman, Chief executive, executive director and also a major shareholder of the Company, in which Mr. Zhang claimed, inter alias, against the Company and Champion for damages for alleged breaches of a joint venture agreement dated 15 July 2006 (the "Joint Venture Agreement"), and Mr. Zhang also applied for an order that the Joint Venture Agreement and the Deed of Charge be rescinded.

After considering the opinion from the Company's legal advisors in Hong Kong, the directors are of the opinion that all the claims in the Writ are of no substance and groundless, and the directors will strongly defend and has confidence to defeat such claims and the Company has issued counter claim against Mr. Zhang, including without limitation, the dividend from China Coal of HK$80,000,000, damages for breaches of the Joint Venture Agreement and other relief.

The Group and the other defendants have made applications for striking out of Mr. Zhang's claims against the Group and the other defendants and also a summary judgment for counterclaims against Mr. Zhang for dividend from China Coal of HK$80,000,000 and other damages. The applications have been dismissed by the Court with costs, and the parties to the legal action would proceed to trial on dates to be fixed. After consultation with the Company's legal advisors, the directors are confident that the Group's rights and interests can be fully protected during the coming trial.

In addition to the above:

i) Zhang Xinyu obtained a judgment (the "Judgment") on 10 November 2008 from the Taiyuan Intermediate People's Court (太原市中級人民法院) against Taiyuan Sanxing, inter alia, that:

    1. an agreement (the "December 2006 Agreement") entered into among Zhang Xinyu, Mr. Zhang and Taiyuan Sanxing on 28 December 2006 in relation to the capital injection and transfer of equity interests in Shanxi Sanxing from Mr. Zhang and Zhang Xinyu to Taiyuan Sanxing should be cancelled; and

    2. after the Judgment becomes effective, Shanxi Sanxing has to be restored to the original situation before the December 2006 Agreement, and all shares in Shanxi Sanxing have to be transferred back to Zhang Xinyu and Mr. Zhang.

    Zhang Xinyu is the younger brother of Mr. Zhang and the chairman of board, a director and also the legal representative of Taiyuan Sanxing. Unknown to the Company, Zhang Xinyu has instituted the above legal proceedings (the "Legal Proceedings") against Taiyuan Sanxing in the Taiyuan Intermediate People's Court, and the Legal Proceedings have been wilfully concealed to the Company and China Coal. China Coal has made an application for an appeal to the judgement.

ii) Subsequent to the acquisition of the additional 15.18% equity interest in China Coal, it came to the attention of the Company's directors that there is a dispute over the title of the mining permit of a coal mine located at (山西省臨縣林家坪鎮白家峁村) (the "Coal Mine") owned by Shanxi Sanxing. In particular, (山西省臨縣林家坪鎮白家峁村民委員會) (the "Village") has sued the Department of Land and Resources,

Shanxi Province (山西省國土資源廳) in the People's Intermediate Court of Taiyuan (太原市中級人民法院) and claimed that the Department of Land and Resources, Shanxi Province (山西省國土資源廳) has wrongfully transferred the title of the Coal Mine from the Village to Shanxi Sanxing and to obtain an administrative judgment of revoking such change. The Company understands that the Department of Land and Resources, Shanxi Province (山西省國土資源廳) has filed its appeal against the judgment but the appeal has been dismissed by the People's High Court of Shanxi Province (山西省高級人民法院) in October 2009. As a result of the judgment, the transfer of the title of the Coal Mine to Shanxi Sanxing in April 2002 has been confirmed as an illegal administrative action, and the mining permit of Shanxi Sanxing issued by the Department of Land and Resources, Shanxi Province (山西省國土資源廳) in December 2006 has been cancelled.

According to the legal advice of the Company's PRC lawyers, the Company and China Coal, as the controlling stakeholder of Taiyuan Sanxing and the Coal Mine, have paid genuine consideration as bona fide purchasers and the investments have been approved by the Department of Commerce, Shanxi Province (山西省商務廳), the Department of Land and Resources, Shanxi Province (山西省國土資源廳) and the Department of Industrial and Commercial Administration, Shanxi Province (山西省工商行政管理局), therefore the investments should be protected by the PRC laws. They have relied on the legality of Shanxi Sanxing as the registered owner of the title of the Coal Mine according to the records in the Department of Land and Resources, Shanxi Province (山西省國土資源廳), the Department of Commerce Shanxi Province (山西省商務廳) and the Department of Industrial and Commercial Administration, Shanxi Province (山西省工商行政管理局). The Company has already taken immediate steps and measures including but not limited to the reporting to the People's Government of Shanxi Province (山西省人民政府), the People's High Court of Shanxi Province (山西省高級人民法院), the Department of Commerce, Shanxi Province (山西省商務廳) and the Department of Land and Resources, Shanxi Province (山西省國土資源廳) to request suspension of execution of the administrative judgment made by the People's High Court of Shanxi Province (山西省高級人民法院) and also requesting the case be fairly handled in accordance with the laws and facts in order to protect its rights and interests in the Coal Mine. The Company also indicates that it will reserve its rights of taking necessary legal actions against the relevant government authorities of Shanxi Province for compensations should the Company incur any damages suffered from loss of the title of the Coal Mine as a result of the issue being not resolved reasonably and lawfully by the government of Shanxi Province.

iii) Since Zhang Xinyu, Mr. Zhang, Gao Shanhe, Zhang Zhenwu and Wang Jifeng (the directors of Taiyuan Sanxing) have refused to execute the resolutions of China Coal, the sole shareholder of Taiyuan Sanxing, refused to account for profits of Taiyuan Sanxing, obviously failed to perform their fiduciary duties as directors of Taiyuan Sanxing and also caused damages to lawful rights and interests of China Coal as a foreign investors, China Coal has therefore issued a writ against them in the People's High Court of Shanxi Province (山西省高級人民法院) to claim for damages against breaches of their fiduciary duties and their conducts amounted to wilful embezzling of assets of Taiyuan Sanxing which are clearly contrary to the laws of the PRC.

Because of the above legal claims between the Company and Mr. Zhang, China Coal had not been provided with the operating and financing information of Taiyuan Sanxing since 1 January 2008 and China Coal was unable to exercise its powers on the financial and operating matters of Taiyuan Sanxing. The loss of the operating and financing control over Taiyuan Sanxing had become apparent to China Coal's board of directors because the legal representative, directors and senior management of Taiyuan Sanxing were either appointed based on the recommendation of Mr. Zhang and/or ex-senior management of Taiyuan Sanxing prior to the Group's acquisition of the present equity interests in China Coal and therefore in Taiyuan Sanxing. Following all the shareholders of China Coal except Mr. Zhang had become aware of the loss of control over Taiyuan Sanxing, the board of directors of China Coal had passed certain key resolutions demanding structural reform to the board of directors of Taiyuan Sanxing. However, due to the above management structure unfavourable to the Group, those board resolutions of China Coal cannot be executed on or by Taiyuan Sanxing. As a result of the loss of control or significant influence over Taiyuan Sanxing, China Coal's equity interests in Taiyuan Sanxing were reclassified as an available-for-sales investment at its carrying value during the year ended 31 December 2008.

The Group, through China Coal, has taken the necessary legal actions to protect China Coal's investment in Taiyuan Sanxing. However, based on the legal advice, the directors of the Company may not be able to obtain a favourable judgement in the litigations.

In view of the above litigations and the inability of China Coal to deal with its interests in Taiyuan Xinsang as well as the significant deterioration of the Taiyuan Sanxing Group's operations and assets, particularly as evidenced by the cancellation of the title of the Coal Mine, a full provision of impairment loss of approximately HK$922,318,000 on the available-for-sales-investment in Taiyuan Sanxing was made by the Group during the year ended 31 December 2009, in which an amount of approximately HK399,094,000 was attributable to its minority interests.

23. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES – GROUP

At 31 December 2008, the amounts due to certain then minority shareholders of subsidiaries were unsecured and interest-free and of which HK$5,167,000 had no fixed repayment terms, and the remaining balance of HK$16,337,000 which was not repayable within the one year after the end of the reporting period.

At 31 December 2009, the amounts due to minority shareholders of subsidiaries of approximately HK$6,012,000 have been reclassified as other payables upon the acquisition of the minority interests of a subsidiary (note 26(a)(ii)). In addition, the amounts due to minority shareholders of subsidiaries of approximately HK$11,496,000 has been acquired by the Group (note 34). The remaining balance of HK$3,996,000 was derecognised from the Group upon the disposal of subsidiaries (note 36).

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	224,314	15,787	206,624	8,882

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$3,975,000 (2008: approximately HK$3,298,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

At the end of reporting period, certain bank deposits of the Group amounting to approximately HK$1,127,000 (2008: approximately HK$1,113,000) was freezed.

25. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Current – 3 months	3,622	4,136
3 months – 6 months	–	548
6 – 12 months	–	3,270
Over 1 year	2,078	813
	5,700	8,767

The trade payables are non-interest-bearing and are normally settled on 60 day terms.

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	5,372	2,292	–	–
Accruals	13,815	17,579	4,073	2,003
Due to former shareholders of subsidiaries *(note (a))*	29,412	–	–	–
Trade deposit deposit received *(note (b))*	3,007	–	–	–
Deposit received *(note (b))*	90	15	–	–
	51,696	19,886	4,073	2,003

Notes:

(a) As at 31 December 2009, the amounts due to certain former shareholders of subsidiaries of HK$29,411,000 represented:

(i) approximately HK$23,400,000 due to Favour Good Investments Limited, which was unsecured, bear interest rate at 6% per annum and repayable in December 2010; and

(ii) approximately HK$6,012,000 due to Kong Rise Limited, which was unsecured, interest-free and has no fixed terms of repayments.

(b) The trade deposits received of approximately HK$3,007,000 as at 31 December 2009 represented sales deposits received from the customers. The related goods were delivered by the Group to the customers subsequent to the end of reporting period in January 2010.

27. INTEREST-BEARING BANK BORROWINGS, SECURED

	Effective interest rate	**Maturity**	Group	
			2009	**2008**
	(%)		*HK$'000*	*HK$'000*
Bank loans – secured	Prime rate	2014	–	60,370
Bank overdrafts – secured	Prime rate	On demand	–	10
			–	60,380
Analysed into:				
Bank loans repayable:				
Within one year or on demand			–	8,382
In the second year			–	8,922
In the third to fifth years, inclusive			–	31,099
Beyond five years			–	11,977
Total			–	60,380
Current portion			–	(8,382)
Non-current portion			–	51,998

The Company's banking facilities as at 31 December 2008 were secured by:

(a) a charge on the premises of the Group's leasehold building of HK$86,896,000 (note 14), together with the prepaid land lease payments HK$19,341,000 (note 15), which were situated in the PRC.

(b) corporate guarantees given by the Company and a subsidiary of the Company;

(c) the Group's banking facilities were subject to the fulfilment of covenants relating to certain capital requirements, as were commonly found in lending arrangements with financial institutions. If the Group breach the covenants, the drawn down facilities would become payable on demand. As at 31 December 2008, none of the covenants relating to the drawn down facilities had been breached.

(d) a charge on the trade receivables of Pearl Oriental Warehouse (Shenzhen) Limited, a wholly owned subsidiary of the Company, of approximately RMB372,000 (equivalents to HK$420,000)).

Upon the disposal of subsidiaries during the year (note 36), the corporate guarantees given by the Company and a subsidiary of the Company were released by the bank.

28. LOAN FROM IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current portion *(note (i))*	4,910	–	3,112	–
Non current portion *(note (ii))*	66,300	25,000	66,300	25,000
	71,210	25,000	69,412	25,000

On 5 September 2008, the Company entered into a loan facility agreement with Orient Day Development Limited (Orient Day"), the immediate parent and ultimate controlling party of the Company, for the grant of a loan facility of not exceeding HK$25,000,000 by Orient Day to the Company.

The total amount of HK$25,000,000 has been drawn down by the Company during the year ended 31 December 2008 and remained outstanding as at 31 December 2008. The loan was unsecured and bored interest at the Hong Kong Prime Rate as quoted by the Hong Kong and Shanghai Banking Corporation ("HSBC Prime rate") from time to time. On 4 March 2009, the Company entered into a conditional subscription agreement with Orient Day, pursuant to which, the loan was settled as part of the proceeds for the issue of convertible notes to Orient Day during the year (note 30(a)(iv)).

As at 31 December 2009, the loan from immediate parent and ultimate controlling party of HK$71,210,000 represented:

(i) a loan with an aggregate amount of approximately HK$4,910,000 granted by Orient Day during the year with the following terms:

- approximately HK$3,112,000 advanced to the Company, which was unsecured, bored interest at HSBC Prime Rate from time to time and had no fixed repayment terms, and;

- approximately HK$1,798,000 advanced to a subsidiary of the Group, which was unsecured, interest-free and had no fixed repayment terms.

These loans were fully settled subsequent to the end of the reporting period in February 2010.

(ii) An amount of HK$66,300,000 representing the amounts received for the subscription of the Company's shares by Orient Day. The subscription was completed subsequent to the end of the reporting period in January 2010, details of which are set out in note 42 to the financial statements.

29. DEFFRRED TAX ASSETS

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
At the beginning of year	–	1,419
Deferred tax charged to the income statement during the year *(note 10)*	–	(1,419)
Gross deferred tax assets at 31 December	–	–

At 31 December 2009, the Group had unused tax losses of approximately HK$23,414,000 (2008: 36,018,000) available for offset against future profits for a period of five years. During the year, no unrecognised tax losses have expired. No deferred tax asset has been recognised in respect of such losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2009, the Group did not have any significant deductible temporary differences (2008: Nil).

No provision for deferred taxation has been recognised in the financial statements of the Company as the amount involved is insignificant.

30. SHARE CAPITAL

(a) Shares

	2009	**2008**
	HK$'000	*HK$'000*
Authorised:		
200,000,000,000 ordinary shares of HK$0.10 each	20,000,000	20,000,000
Issued and fully paid:		
1,159,216,960 ordinary shares of HK$0.10 each (2008: 464,737,960 shares of HK$0.10)	115,922	46,474

A summary of the movements in the Company's authorised and issued share capital during the year is as follows:

	Authorised			
	Ordinary shares of HK$0.10 each		Ordinary shares of HK$0.5 each	
	Number of shares		Number of shares	
	'000	*HK$'000*	*'000*	*HK$'000*
At 1 January 2008	–	–	600,000	300,000
Increase in authorised share capital:				
Capital restructuring *(note (i))*	–	–	5,400,000	2,700,000
Capital reduction *(note (ii))*	6,000,000	600,000	(6,000,000)	(3,000,000)
Increase in authorised share capital *(note (iii))*	194,000,000	19,400,000	–	–
At 31 December 2008 and 2009	200,000,000	20,000,000	–	–

	Issued and fully paid					
	Ordinary shares of HK$0.10 each		Ordinary shares of HK$0.5 each		Share premium account	Total
	Number of shares	Number of shares				
	'000	*HK$'000*	*'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	–	–	387,281	193,641	346,510	540,151
Issues of new shares *(note(i))*	–	–	77,456	38,728	38,728	77,456
Share issue expenses	–	–	–	–	(330)	(330)
Capital reduction *(note (ii))*	464,737	46,474	(464,737)	(232,369)	–	(185,895)
At 31 December 2008	464,737	46,474	–	–	384,908	431,382
At 1 January 2009	464,737	46,474	–	–	384,908	431,382
Issue of new shares						
In May 2009 *(note (iv))*	116,666	11,667	–	–	23,333	35,000
In July 2009 *(note (vi))*	145,000	14,500	–	–	55,100	69,600
In July 2009 *(note (iv))*	33,333	3,333	–	–	6,667	10,000
In October 2009 *(note (v))*	50,000	5,000	–	–	15,000	20,000
In October 2009 *(note (vii))*	200,000	20,000	–	–	94,000	114,000
In December 2009 *(note (viii))*	115,680	11,568	–	–	106,426	117,994
Share issue expenses	–	–	–	–	(530)	(530)
In December 2009 *(note (v))*	25,000	2,500	–	–	7,500	10,000
Share options exercised *(note (ix))*	8,800	880	–	–	5,697	6,577
At 31 December 2009	1,159,216	115,922	–	–	698,101	814,023

Notes:

i. Pursuant to an ordinary resolution passed on 19 February 2008, the authorised share capital of the Company was increased from HK$300,000,000, divided into 600,000,000 shares of HK$0.50 each, to HK$3,000,000,000, divided into 6,000,000,000 shares of HK$0.50 each, by the creation of 5,400,000,000 additional shares of HK$0.50 each. Pursuant to a share subscription agreement dated 31 December 2007, the Company has allotted 77,456,000 new ordinary shares of HK$0.50 each to Orient Day Developments Limited at a price of HK$1.00 per share, raising gross proceeds of approximately HK$77,456,000 for working capital.

ii. Pursuant to a special resolution passed on 12 November 2008, the issued share capital of the Company was reduced by cancelling the paid up capital to the extent of HK$0.40 on each of the shares in issue such that the nominal value of all the issued shares was reduced (the "Issued Capital Reduction") from HK$0.50 each to HK$0.10 each; and (b) the nominal value of all shares in the authorised share capital of the Company was reduced from HK$0.50 each to HK$0.10 each, resulting in the reduction of the authorised share capital from HK$3,000,000,000 to HK$600,000,000 divided into 6,000,000,000 shares of HK$0.10 each (the "Authorised Capital Reduction"). Upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the credit amount arising from the Issued Capital Reduction be applied to set off against the accumulated losses of the Company;

iii. Pursuant to an ordinary resolution passed on 12 November 2008, upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the authorised share capital of the Company was increased from HK$600,000,000, divided into 6,000,000,000 shares of HK$0.10 each, to HK$20,000,000,000, divided into 200,000,000,000 shares of HK$0.10 each, by the creation of 194,000,000,000 new shares of HK$0.10each.

(iv) In March 2009, Orient Day and the Company entered into an subscription agreement (the "First Subscription Agreement") in relation to the proposed issue of convertible notes (the "First Convertible Notes") by the Company to Orient Day. The First Convertible Notes consist of two tranches and the total principal amount is up to HK$45,000,000. The First Convertible Notes are convertible into new ordinary shares of the Company at a conversion price of HK$0.30 per ordinary share, resulting in the issue of an aggregate of up to 150,000,000 new ordinary shares of the Company.

The First Convertible Notes shall be issued as follows:

- Orient Day shall subscribe for, and the Company shall issue, the convertible note due after 2 years from the date of issue with a principal amount up to HK$30,000,000 (the "First Tranche Note");
- if Orient Day elects to subscribe for, the Company may at its sole discretion give a written notice to Orient Day on or before 31 December 2009 to invite for the subscription for the second tranche of the First Convertible Notes (the "Second Tranche Note") with a further principal amount of HK$15,000,000.

The First Tranche Note and part of the Second Tranche Note of HK$5,000,000 were converted by Orient Day on 22 May 2009, resulting in 116,666,000 new ordinary shares being issued to Orient Day for a total consideration of HK$35,000,000, satisfied by Orient Day as to HK$25,000,000 by offsetting a loan of HK$25,000,000 due to Orient Day by the Company at the time (note 28) and as to the remaining balance of HK$10,000,000 in cash for general working capital of the Company.

The remaining balance of the Second Tranche Note was exercised by Orient Day on 29 July 2009, resulting in 33,333,000 new ordinary shares being issued to Orient Day for a total consideration of HK$10,000,000 in cash for general working capital of the Company.

At the end of the reporting period, there were no outstanding First Convertible Notes.

(v) In May 2009, Orient Day and the Company entered into another subscription agreement (the "Second Subscription Agreement") in relation to the proposed issue of convertible notes (the "Second Convertible Notes") by the Company to Orient Day. The Second Convertible Notes consist of two tranches and the total principal amount is up to HK$100,000,000. The Second Convertible Notes are convertible into new ordinary shares of the Company at an a conversion price of HK$0.40 per ordinary share, resulting in the issue of an aggregate of up to 250,000,000 new ordinary shares of the Company.

The Second Convertible Notes shall be issued as follows:

- Orient Day shall subscribe for, and the Company shall issue, the convertible note due after 2 years from the date of issue with a principal amount up to HK$100,000,000;
- if Orient Day elects to subscribe for, the Company may at its sole discretion give a written notice to Orient Day on or before 30 June 2011 to invite for the subscription for the whole part of the Second Convertible Note by Orient Day provided that the principal amount of each of the convertible note notices shall be in the multiples of HK$10,000,000.

A total of 50,000,000 and 25,000,000 new shares were issued on 20 October 2009 and 31 December 2009, respectively, and Orient Day exercised its right to convert the Second Convertible Notes into ordinary shares of the Company on the respective issue dates. The proceeds from the conversion of the Second Convertible Notes were of approximately HK$30,000,000.

At the end of the reporting period, a total of HK$70,000,000 of Second Convertible Notes remained outstanding, the full issue and conversion of which would result in the issue of a total of 175, 000,000 new ordinary shares of the Company with an aggregate gross proceeds of HK$70,000,000.

(vi) In July 2009, the Company issued 145,000,000 new ordinary shares at a price of HK$0.40 per share as the consideration for the acquisition of the additional equity interests in China Coal (note 33(a)). At the issue date, the fair value of the consideration shares were approximately HK$69,600,000.

(vii) In October 2009, the Company issued 200,000,000 new ordinary at a price of HK$0.5 per shares as the consideration for the acquisition of minority interests (note 34) in a then non-wholly-owned subsidiary and the acquisition of certain business (note 34). At the issue date, the fair value of the consideration shares were approximately HK$114,000,000.

(viii) In December 2009, the Company entered into several shares sales and subscription agreements with Orient Day and certain other purchasers. Pursuant to which, Orient Day agreed to sell an aggregate of 115,680,000 existing shares of the Company ("Sale Share(s)") beneficially owned by Orient Day to the purchasers at a price of HK$1.02 per Sale Share (the "Sale"). In addition, Orient Day conditionally agreed to subscribe for an aggregate of 115,680,000 new ordinary shares of the Company (the "Subscription Share(s)") at a price of HK$1.02 per Subscription Share (the "Subscription"). The Sale and Subscription was completed on 24 December 2009 with aggregate net proceeds of approximately HK$117,464,000 received by the Company. The purpose of the Sale and Subscription was to raise capital for the Company while broadening the shareholder base and capital base of the Company.

(ix) In December 2009, 8,800,000 share options have been exercised at an exercise price of HK$0.56 per share, resulting into the issue of 8,800,000 new ordinary shares of the Company with an aggregate gross proceeds of HK$6,577,000 (including the amount transferred from share option reserve of approximately HK$1,649,000). The net proceeds from the exercise of the share options were HK$4,928,000.

(b) Share Options

Details of the Company's share option scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEME

The Company has a share option scheme ("the Old Scheme") which was adopted on 21 June 2002 whereby, pursuant to a written resolution of the sole shareholder, was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 20 June 2012. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of any companies in the Group, to subscribe for shares in Company. However, the Old Scheme had cancelled during the year ended 31 December 2008.

The Company has a new share option scheme ("the New Scheme") which was adopted on 5 August 2009 and 3 December 2009, respectively, whereby, pursuant to a written resolution of all the shareholders, was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 14 July 2019. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of any companies in the Group, to subscribe for shares in Company.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the issued share capital of the Company from time to time, without prior approval from shareholders of the Company. The number of shares in respect of which options may be granted to an individual in any one year is not permitted to exceed 1% of the Company's issued share capital; otherwise it must be approved by the shareholders of the Company.

The options may be exercised at any time from the date of acceptance of the offer to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and shall not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company.

The following table discloses movements in the Company's share options establishing during the year:

Grantee	Date of grant	Exercise period	Outstanding as at 1 January 2009	Granted during the year	Exercise during the year	Lapse during the year	Outstanding as at 31 December 2009	Exercise price per share option *HK$*
Directors								
Wong Yuk Kwan	5 August 2009	5 August 2009 – 14 July 2019	–	3,000,000	–	–	3,000,000	0.56
Cheung Kwok Yu	5 August 2009	5 August 2009 – 14 July 2019	–	3,000,000	(3,000,000)	–	–	0.56
Zhou Li Yang	5 August 2009	5 August 2009 – 14 July 2019	–	3,000,000	–	–	3,000,000	0.56
Zheng Yingsheng	5 August 2009	5 August 2009 – 14 July 2019	–	3,000,000	(2,000,000)	–	1,000,000	0.56
Johnny Yuen	5 August 2009	5 August 2009 – 14 July 2019	–	3,000,000	–	–	3,000,000	0.56
Fung Hing Chiu	5 August 2009	5 August 2009 – 14 July 2019	–	3,000,000	–	–	3,000,000	0.56
Lam Ka Wai Graham	5 August 2009	5 August 2009 – 14 July 2019	–	3,000,000	–	–	3,000,000	0.56
Yu Jianmeng	5 August 2009	5 August 2009 – 14 July 2019	–	1,000,000	–	–	1,000,000	0.56
Lew Mon Hung	3 December 2009	3 December 2009 – 14 July 2019	–	3,000,000	–	–	3,000,000	0.83
			–	25,000,000	(5,000,000)	–	20,000,000	
Consultant								
Dong Zhixiong*	5 August 2009	5 August 2009 – 14 July 2019	–	3,000,000	–	–	3,000,000	0.56
Employees	5 August 2009	5 August 2009 – 14 July 2019	–	5,000,000	(3,800,000)	(1,000,000)	200,000	0.56
			–	33,000,000	(8,800,000)	(1,000,000)	23,200,000	

The options granted during the year were measured using the Binomial Option Pricing Model which was performed by an independent valuer, BMI Appraisals Limited. The inputs into the model used are summarised as follows:

	5 August 2009	3 December 2009
Date of grant	2009	2009
Spot price	HK$0.56	HK$0.83
Exercise price	HK$0.56	HK$0.83
Risk-free rate	2.43%	2.14%
Nature of the options	Call	Call
Expected life of the options	9.94 years	9.61 years
Expected volatility	75.33%	75.15%
Expected dividend yield	Nil	Nil
Early exercise behavior	150%	150%

The Company recognised total expenses of approximately HK$6,727,000 for the year ended 31 December 2009 in relation to share options granted.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 29 of the financial statements.

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation in 1996.

At 31 December 2008 and 2009, 4,060,000 ordinary shares of the Company remained with Pearl Oriental Sino Limited, a subsidiary, which was accounted for as a reduction in the Company's equity.

(b) Company

	Issued capital	**Share premium**	**Contributed surplus**	**Share options reserve**	**Retained earnings/ (accumulated losses)**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*	*HK'000*
At 1 January 2008	193,641	346,510	45,348	16,579	(164,895)	437,183
Issue of shares *(note 30(a)(i))*	38,728	38,728	–	–	–	77,456
Share issue expenses	–	(330)	–	–	–	(330)
Capital reduction *(note 30(a)(ii))*	(185,895)	–	–	–	185,895	–
Cancellation of share options	–	–	–	(16,579)	16,579	–
Total comprehensive income for the year	–	–	–	–	(10,624)	(10,624)
At 31 December 2008	46,474	384,908	45,348	–	26,955	503,685
Issue of new shares *(note 30)*	68,568	308,026	–	–	–	376,594
Share issue expenses	–	(530)	–	–	–	(530)
Equity-settled share options arrangements *(note 31)*	–	–	–	6,727	–	6,727
Share options exercised during the year *(note 30(a)(viii))*	880	5,697	–	(1,649)	–	4,928
Share options lapsed during the year	–	–	–	(188)	188	–
Total comprehensive for the year	–	–	–	–	(546,417)	(546,417)
At 31 December 2009	115,922	698,101	45,348	4,890	(519,274)	344,987

Notes

(i) Contributed surplus

The contributed surplus of the Company represents the excess of the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition pursuant to the Group reorganisation in 1996. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

Under the Companies Act 1981 Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

(ii) Share premium account

The share premium account is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Share premium	698,101	384,908
Contributed surplus	45,348	45,348
Retained (losses)/earnings	(519,274)	26,955
	224,175	457,211

33. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Additional Equity Interests in China Coal Energy Holdings Limited ("China Coal")

On 15 July 2009, the Group acquired from independent third parties an aggregate of 15.18% equity interests in China Coal thought the acquisition of an 100% equity interest in Get Wealthy Investments Limited ("Get Wealthy") (which holds 15% equity interests in China Coal) and the remaining 0.18% equity interests in China Coal at an aggregate consideration of HK$58,000,000. The consideration was satisfied by issuing 145,000,000 new ordinary shares (the "Consideration Shares") at a price of HK$0.40 per ordinary share. Upon the completion, the Group's equity interest in China Coal increased from 39.93% (note 18) to 55.11% and China Coal has therefore become an indirect 55.11% owned subsidiary of the Company.

Get Wealthy is an investment holding company incorporated in the British Virgin Islands with limited liabilities. China Coal is an investment holding company incorporated in Hong Kong with limited liabilities. The principal asset of China Coal is an 100% equity interest in Taiyuan Sanxing Coal Gasification (Group) Co., Limited ("Taiyuan Sanxing"). Taiyuan Sanxing was established in the PRC with limited liability. Taiyuan Sanxing and its subsidiary are principally engaged in the coal gasification and coal mining.

As detailed in note 22 to the financial statements, China Coal has not been provided with the operating and financing information of Taiyuan Sanxing since 1 January 2008 and China Coal is unable to exercise its powers on the financial and operating matters of Taiyuan Sanxing. As a result of the loss of control or significant influence over Taiyuan Sanxing, China Coal's equity interests in Taiyuan Sanxing were reclassified as an available for sales investment at its carrying value of HK$944,312,000 during the year ended 31 December 2008.

The acquisition of additional equity interests in China Coal (the "Acquisition") is not accounted for as a business combination in the Group's consolidated financial statements for the year ended 31 December 2009 as the Group obtained control of Get Wealthy and China Coal through the Acquisition that are not businesses, the bringing together of those entities is not a business combination. Accordingly, the consideration of the Acquisition was allocated between the individual identifiable assets and liabilities of Get Wealthy and China Coal.

	Notes	Fair value recognised on acquisition HK$'000	Previous carrying amount HK$'000
Available-for-sales investments	22	922,318	944,312
Cash and bank balances		9	9
Other payables and accruals		(4,010)	(4,010)
Due to a former shareholder of China Coal		(23,400)	(23,400)
Due to the Group by China Coal	18	(5,868)	(5,868)
Net assets of Get Wealthy and China Coal		889,049	911,043
Minority interests of China Coal		(399,094)	
Net assets of Get Wealthy and China Coal attributable to the owners of the Company		489,955	
Satisfied by:			
Interests in an associate, China Coal	18	420,355	
Fair value of the Consideration Shares	30(a)(vi)	69,600	
		489,955	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Get Wealthy and China Coal is as follows:

	HK$'000
Cash consideration	–
Cash and bank balances acquired	9
Net inflow of cash and cash equivalents in respect of the acquisition of Get Wealthy and China Coal	9

Since its acquisition, China Coal has not contributed to the Group's consolidated revenue for the year ended 31 December 2009 but incurred a loss of approximately HK$923,201,000 to the consolidated loss for the year ended 31 December 2009, of which approximately HK$399,094,000 was attributable to its minority interests.

Had the acquisition taken place at 1 January 2009, the Group's consolidated revenue and loss for the year ended 31 December 2009 would have been HK$195,530,000 and HK$968,786,000, respectively.

(b) Acquisition of Additional Equity Interests in Euro Resources China Limited ("ERC")

Euro Resources China Limited ("ERC") was owned as to 50% by the Group and was classified as an associate in the consolidated balance sheet as at 31 December 2007. At the time of acquiring the 50% equity interests in ERC by the Group, the vendors (Mr. Laurent Kim, a former director and the founder of ERC) and Mr. Ung Phong (collectively, the "Guarantors") have given a profit guarantee to Grand Ascend Investments Limited ("Grand Ascend"), a wholly-owned subsidiary of the Company, in respect of ERC's audited results for the three years ending 31 December 2009. Mr. Laurent Kim had pledged its 30% equity interests in ERC in favour of Grand Ascend under a share charge (the "Share Charge") as collateral for the performance of the Guarantors under the profit guarantee.

As disclosed in the Company's circular dated 27 November 2008, the Guarantors had failed to honour and perform the profit guarantee due to their own personal reasons, and the Group had no other choice but to dispose of Mr. Laurent Kim's 30% equity interests in ERC under the Share Charge by way of a private tender. Private invitations to offer had been sent to a number of potential investors in the environmental and related sectors by an independent sale agent of the private tender appointed by the Group including all the existing shareholders of ERC. Legal advices have been obtained by the Company in respect of the enforceability of the Share Charge and of the results of the private tender.

Allfair Limited ("Allfair"), a wholly-owned subsidiary of the Group, had submitted an offer of HK$9,800,000 to the sale agent of the private tender which was the only offer received by the sale agent. On 5 November 2008, Allfair entered into a sale and purchase agreement (the "Acquisition") with Grand Ascend, to acquire the 30% equity interests in Euro Resources at a consideration of HK$9,800,000.

As disclosed in the Company's circular dated 27 November 2008, the Group has reserved the right to claim against the Guarantors to recover the balance of the shortfall in the Profit Guarantee, i.e. approximately Euro 5.5 million (equivalent to approximately HK$60,115,000) minus the sum of HK$9,800,000 recovered by the Group as a result of enforcing the Share Charge. The Group may consider taking legal proceedings against the Guarantors after seeking legal advice if it is in the best interests of the Group. The amount of HK$9,800,000 has been booked as other income and gains (note 5).

Upon to the completion of the Acquisition, ERC became an 80% owned subsidiary of the Company. The fair values of the identifiable assets and liabilities of ERC as at the completion date of Acquisition and the corresponding carrying amounts immediately before the completion date of the Acquisition are as follows:

	Fair value recognised on acquisition	**Previous carrying amount**
	HK$'000	*HK$'000*
Property, plant and equipment *(Note 15)*	64,353	64,353
Cash and bank balances	2,029	2,029
Inventories	7,202	7,202
Trade receivables	1,887	1,887
Prepayments and other receivables	4,253	4,253
Trade payables	(9,362)	(9,362)
Accruals and other payables	(30,669)	(30,669)
Due to minority shareholders	(17,507)	(17,507)
Tax payable	(1,707)	(1,707)
	20,479	20,479
Portion attributable to the 30% equity interests in ERC acquired	6,144	
Goodwill on acquisition of 30% equity interests	3,656	
Satisfied as:		
Other income – shortfall in profit of ERC guaranteed by an ex-joint venture partner *(Note 5)*	9,800	

The net inflow of cash and cash equivalents in respect of the Acquisition represents the cash and bank balances of ERC of approximately HK$2,029,000 acquired.

The goodwill in association with the piece-meal acquisition of the 80% equity interests in ERC is as follows:

	HK$'000
Goodwill recognised in the previous period, included in the interests in associates	13,265
Goodwill on acquisition of 30% equity interests	3,656
Total goodwill arising from acquisition of a subsidiary *(Note 16)*	16,921

Since the acquisition of the additional 30% equity interests by the Group, ERC has not contributed to the Group's revenue and contributed a loss of HK$965,000 to the consolidated loss for the year ended 31 December 2008.

34. ACQUISITION OF MINORITY INTEREST

On 30 July 2009, the Group entered into a sales and purchase agreement (the "ERC Sales and Purchase Agreement") to acquire the entire issued share capital of Poly Keen Limited ("Poly Keen") for an aggregate consideration of HK$50,000,000, which was satisfied by the issue of 100,000,000 new ordinary shares (the "Consideration Share 1") at the price of HK$0.50 per ordinary share. Prior to the acquisition, the Group owned 80% equity interests in Euro Resources China Limited ("ERC ") and its subsidiaries and, Poly Keen owned 20% equity interests in ERC. Upon the completion of the acquisition on 21 October 2009, ERC became a wholly-owned subsidiary of the Company.

	Notes	*HK$'000*
The carrying values of the identifiable assets and liabilities of Poly Keen and ERC Group as at the date of acquisition		12,597
Portion attributable to the remaining 20% equity interests In ERC held by Poly Keen		2,519
Elimination of amount due to Poly Keen the ERC Group		11,496
		14,015
Satisfied by:		
Fair value of the Consideration Share 1	*30(a)(vii)*	(57,000)
Goodwill on acquisition of the remaining 20% equity interest	*16*	42,985

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Poly Keen and the ERC Group are as follows:

	HK$'000
Cash consideration	–
Cash and bank balances acquired	–
Net outflow of cash and cash equivalents in respect of the acquisition of Poly Keen	–

35. ACQUISITION OF BUSINESS

In addition to the acquisition of minority interests as detailed in note 34 to the financial statements, on 30 July 2009, the Company further entered into a merger agreement ("Merger Agreement") with Mr. Cheung Mo Kit ("Mr Cheung"), an independent third party and the sole shareholder of IB Group Trading Limited ("IBG"). Pursuant to which, a joint venture company, China Environmental Resources Limited ("CER"), has been established for the development of the business of plastic recycling (the "Business"). The registered capital of CER is HK$50,000,000 comprising 50,000,000 shares of HK$1 per share, HK$30,000,000 was contributed by Group for 60% equity interests in CER while the remaining

HK$20,000,000 was contributed by Mr. Cheung for 40% equity interests in CER. CER became a 60% owned subsidiary of the Group. A new operating company, IB Environmental Plastic Limited ("IBE" and together with CER, hereby referred as the "IBE Group"), has been set up as a wholly-owned subsidiary CER to operate the Business in the plastic recycling industry in Europe, Japan, the PRC and other countries.

In addition, pursuant to the Merger Agreement, the Company issued 100,000,000 new ordinary shares (the "Consideration Share 2") at the price of HK$0.50 per ordinary share to Mr. Cheung as the consideration for Mr. Cheung's agreeing to enter into the Merger Agreement. Mr. Cheung procured all the Business has been transferred from IBG to IBE.

The fair values of the identifiable assets and liabilities of the Business acquired under the Merger Agreement as at the date of acquisition and the corresponding goodwill arising from the completion of the Merger Agreement were as follows:

	Notes	*HK$'000*
Assets and liabilities of the Business		–
Assets and liabilities of Poly Keen and the ERC Group		12,597
Assets and liabilities of the joint venture, net		12,597
The joint venture partner's 40% share in the assets and liabilities of the IBE Group, net		5,039
Consideration for the Merger Agreement:		
Fair value of the Consideration Share 2	*30(a)(vii)*	57,000
Goodwill arising from the completion of the Merger Agreement*	*16*	62,039

* The goodwill arising from the acquisition of the Business of HK$62,039,000 represented (i) the extensive suppliers and customers networks in Japan, Malaysia, Taiwan and Mainland China; (ii) the senior management team of IBG; and (iii) the good reputation and the operation in the plastic recycling industry in Europe, Japan, Mainland China and other countries. These intangible assets have not been recognised separately from the goodwill as the directors of the Company are of the opinion that these intangible assets cannot be measured reliably and cannot be recognised separately as an identifiable asset.

Since its acquisition by the Group, the Business contributed HK$159,018,000 and HK$1,652,000, respectively, to the Group's consolidated revenue and the consolidated profit for the year ended 31 December 2009.

Had the acquisition taken place at 1 January 2009, the Group's consolidated revenue of and consolidated loss for the year ended 31 December 2009 would have been HK$195,530,000 and HK$967,962,000, respectively.

36. DISPOSAL OF SUBSIDIARIES

Disposal of Poehl

On 22 January 2009, Pearl Oriental Logistics Holdings Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Sunny Villa Investments Limited ("Sunny Villa"). Pursuant to which, the Company (i) has disposed of 60% equity interest in Pearl Oriental Express Holdings Limited ("POEHL) and (ii) waived (the "Waiver") of a shareholder's loan of approximately HK$15,043,000 in full owing from POEHL and its subsidiary, Guangzhou Pearl Oriental Logistics Limited ("GZPO") to the Group for a consideration of HK$3,000,000 which was satisfied by cash and HK$9,000,000 which was satisfied by a convertible bond issued by POEHL with a maturity of two years from the date of issue and which can be convertible into 20% equity interests in POEHL or, GZPO or any other new holding company.

The disposal of POEHL was completed on 28 February 2009 and the Company received cash of HK$3,000,000 and the convertible bond of HK$9,000,000 as the consideration of the disposal of POEHL and the Wavier. In the opinion of the directors of the Company, the fair value of the convertible bond was minimal at the date of issue.

Disposal of Good Value Group

In prior years, the Group had 100% equity interest in Good Value Holdings Limited ("Good Value") and its subsidiaries, Hong Kong Good Value Holdings Limited ("HKGVH") and Pearl Oriental Warehouse (Shenzhen) Limited ("POW (SZ)") (collectively referred to as the "Good Value Group"). The principal activities of POW (SZ) were provision of logistics services and warehousing services in the PRC and, POW(SZ) owned a bonded warehouse property (the "Warehouse") in Futian, Shenzhen, the PRC. The Warehouse has been pledged to a bank for a bank loan granted to the Group (the "Bank Loan").

On 27 November 2009, the Group entered into a sale and purchase agreement with Full Wealth International Investments Holdings Limited ("Full Wealth"), an independent third party. Pursuant to which, the Group had disposed of its 100% equity interests in Good Value at a consideration of RMB93,000,000 (equivalent to approximately HK$105,520,000), in which (i) RMB46,500,000 (equivalent to approximately HK$52,760,000) is satisfied by cash; and (ii) the remaining consideration of RMB46,500,000 (equivalent to approximately HK$52,760,000) is offset against the outstanding bank loan of POW (SZ) of approximately RMB46,720,000 (equivalent to approximately HK$53,280,000). The net proceeds after the deduction of the Bank Loan amounted to RMB46,500,000 (equivalent to approximately HK$52,760,000).

The major classes of assets and liabilities of the POEHL Group and the Good Value Group as at the respective disposal dates were as follows:

	Notes	POEHL Group HK$'000	Good Value Group HK$'000	Total HK$'000
Net assets disposed of:				
Property, plant and equipment	14	3,419	94,936	98,355
Prepaid land lease payments	15	–	19,082	19,082
Cash and bank balances		286	487	773
Trade receivables		7,331	74	7,405
Prepayments and other receivables		5,036	74	5,110
Trade payables		(3,717)	(211)	(3,928)
Accruals and other payables		(8,465)	(1,639)	(10,104)
Interest bearing bank borrowings*		–	(53,280)	(53,280)
Tax payable		(14)	(16,637)	(16,651)
Due to minority interests		(3,996)	–	(3,996)
Due to immediate holding company		(15,043)	–	(15,043)
		(15,163)	42,886	27,723
Waiver of the amount due to immediate holding company		15,043	–	15,043
Net assets value		(120)	42,886	42,766
Exchange fluctuation reserve realised	5	(4,685)	(2,591)	(7,276)
		(4,805)	40,295	35,490
Gain on disposal of subsidiaries		7,805	12,465	20,270
		3,000	52,760	55,760
Satisfied by:				
Cash		3,000	52,760	55,760
Fair value of the convertible bond		–	–	–
		3,000	52,760	55,760

* The remaining consideration of RMB46,500,000 (equivalent to HK$52,760,000) is offset against the outstanding Bank Loan of approximately RMB46,720,000 (equivalent to approximately HK$53,280,000), the Group is not liable to the excess amount between the remaining consideration and the outstanding Bank Loan.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	POEHL Group HK$'000	Good Value Group HK$'000	Total HK$'000
Cash consideration	3,000	52,760	55,760
Cash and bank balances disposed of	(286)	(487)	(773)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	2,714	52,273	54,987

37. CONTINGENT LIABILITIES

At the end of the reporting period, the Company's contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2009	**2008**
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	–	60,370

As at 31 December 2008, corporate guarantees were given to the banks by the Company for the banking facilities granted to the subsidiary of the Company, which were utilised to the extent of approximately HK$60,367,000. No financial liabilities were recorded for the above guarantees given to banks as, in the opinion of the directors, the fair values of the financial guarantee contracts were not material as at 31 December 2008.

The relevant corporate guarantees were released upon the disposal of subsidiaries during the year (notes 27 and 36).

Details of the Group's litigations and the related contingent liabilities (if any) are set out in note 41 to the financial statements.

38. OPERATING LEASE ARRANGEMENTS

As Lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to four years.

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Within one year	3,303	7,612
In the second to fifth year, inclusive	3,719	733
After five years	–	–
	7,022	8,345

The Company did not have any significant operating lease arrangements as at 31 December 2009 (2008: Nil).

39. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Authorised, but not contracted for:		
Proposed acquisition of a subsidiary *(note 21(a))*	8,352	8,461
Leasehold improvement	32	–
	8,384	8,461

The Company did not have any significant commitments as at 31 December 2009 (2008: Nil).

40. RELATED PARTY TRANSACTIONS AND BALANCES

(i) In addition to the balances detailed in notes 18, 23 and 28 to the financial statements, the Group had the following transactions with the related party during the year:

	2009	**2008**
	HK$'000	*HK$'000*
Immediate and ultimate controlling party:		
Orient Day Developments Limited:		
Administrative fees paid	–	250
Loan interest paid	855	882
Ex-minority shareholder of a subsidiary		
Favour Good Investments Limited:		
Loan interest paid	1,256	–

The related party transactions were conducted on terms negotiated between the Company and the related company.

(ii) Compensation of key management personnel of the Group:

	2009	**2008**
	HK$'000	*HK$'000*
Short term employee benefits	5,580	3,932
Post-employment benefits	–	–
Equity-settled share option expenses	2,248	–
Total compensation paid to key management personnel	7,828	3,932

Further details of directors' emoluments are included in note 8 to the financial statements.

41. LITIGATIONS

Apart from the litigations detailed in note 22 to the financial statements, the Group had the following significant outstanding litigations at the end of the reporting period:

(a) Litigation with the Ex-directors of a Disposed Subsidiary

The Group had three pending litigation claims with the ex-directors of a disposed subsidiary, Dransfield Holdings Limited ("DHL"), who claim against the Group for a total sum of not less than HK$11.4 million. As disclosed in the Company's announcement dated 23 August 2005, the Company's interest in DHL was disposed of on 23 July 2005. It was alleged in these claims that by disposing of all its shares in DHL, the Company was evading liabilities and denying these claimants' benefits of the debts owned by DHL. A judgment (the "Judgment") was given in favour of Horace Yao Yee Cheong, Habile International Holdings Limited and Makdavy Holdings Limited (collectively, the "Plaintiffs") against the Company on 22 May 2009 for the aggregate sum of approximately HK$6.9 million together with interests thereon and legal costs. To pursue the appeal, the Company has paid a total sum of HK$10,167,000 (note 21) to the Court being the security for payment of judgement debt and the Plaintiffs' cost. The Company has filed an appeal against the Judgment and the appeal was allowed by the Court of Appeal and the Judgment was set aside on 13 April 2010. On the basis of the Court of Appeal's judgement, the Group is not liable to pay to the Plaintiffs. The Board is of the view that the claims filed by the remaining two ex-directors, Ms. Cheung Kam Wah and Mr. Tse Tack Huen, Alexander, are without merit.

(b) Litigation with DiChain Holding Limited

It is a term and condition in the subscription agreements entered into by, inter alias, the Company and DiChain Holdings Limited ("DiChain Holdings"), being a former majority shareholder of the Company, on 22 February 2006 and an obligation (the "Obligation") for DiChain Holdings to pledge one billion Shares (or 20,000,000 Consolidated Shares of HK$0.50 each) upon completion of the Subscription Agreements, as collateral to compensate the Company of any economic loss (if any) arising from any breach of warranties (if any) provided by DiChain Holdings under the Subscription Agreements. As DiChain Holdings has not yet performed the Obligations under the Subscription Agreements, the Company issued a writ of summons against DiChain Holdings on 31 October 2006, inter alia, in respect of the breach of warranties given by DiChain Holdings under the Subscription Agreements. The Company obtained a summary judgment against DiChain Holdings on 13 December 2007 in respect of its non-performance of obligations and breach of warranties under the Subscription Agreements. On 7 January 2008, China Minsheng Banking Corporation Limited (Shenzhen Branch) ("Minsheng Bank") applied to the court to join as the intervener of this case and has applied to the court for appeal, and Minsheng Bank obtained an order on 15 April 2008 that the appeal against the summary judgment entered by the Company on 13 December 2007 be allowed. The Company has obtained legal advice to further appeal after reviewing the judgment from the court and may consider to petition to the court for a winding order of DiChain Holdings in order to protect the interests of the Company.

42. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the Group has following events:

(a) On 9 January 2010, the Group entered into an agreement with the vendors (the "Vendors"), pursuant to which, the Company will acquire (the "Acquisition") the 100% equity interest in Festive Oasis Limited ("Oasis") and its subsidiaries (collectively, the "Oasis Group"), the 100% ownership interest in respect of oil, gas and/or mineral leases, title and related rights in the certain natural gas and oilfield located in the Utah, the United States of America (the "Ownership Interest") through 2 phases and the amount due by Oasis to one of its shareholders, Charcon, (a shareholder which owns a 35% interest in Oasis) (the "Sales Loan"). In phase 1, the Company will acquire the 100% equity interest in Oasis and the Sales Loan at a consideration of US$200 million (equivalent to approximately HK$1,560 million, the "Phase 1 Consideration") which is to be satisfied by (i) as to US$50 million (equivalent to approximately HK$390 million) by cash; and (ii) as to US$150 million (equivalent to approximately HK$1,170 million) by the issue of up to 847,810,000 consideration shares in the Company at a price (the "Price") of HK$1.38 per Share. As a condition to the payment of the Phase 1 Consideration, the Vendors will transfer to the Oasis Group, by phases, a 70% Ownership Interest. In phase 2, the Company may, at its option, further acquire the remaining 30% Ownership Interest and transfer to the same to the Oasis Group at a consideration of US$25 million (equivalent to approximately HK$195 million) which is to be satisfied by (i) as to US$25 million (equivalent

to approximately HK$195 million) by cash in full; or (ii) if the Vendors elect, as to US$12.5 million (equivalent to approximately HK$97.5 million) by cash and the remaining sum of US$12.5 million (equivalent to approximately HK$97.5 million) by the issue of 70,650,000 consideration shares in the Company at HK$1.38 per Share.

The Acquisition constitutes a very substantial acquisition and a connected transaction of the Company under the Listing Rules. At the date of approving these audited financial statements, the acquisition is still subject to, inter alias, the approval of the independent shareholders of the Company.

(b) The Company further entered into various share sale and subscription agreements with certain independent third parties (the "Purchasers") and Orient Day, on 12 December 2009 and 13 December 2009. Pursuant to which, Orient Day agreed to sell an aggregate of 65,000,000 existing ordinary shares (the "Sale Share(s)") of the Company to the Purchasers at a price of HK$1.02 per Sale Share. In addition, Orient Day conditionally agreed to subscribe for an aggregate of 65,000,000 new shares (the "Subscription Share(s)") of the Company at a price of HK$1.02 per Subscription Share, resulting in an aggregate gross proceeds of HK$66.3 million as additional working capital of the Company. The subscription was completed in January 2010.

(c) During the period from 15 April 2010 to 20 April 2010, the Company has entered into several subscription agreements (the "Subscription Agreements") with certain subscribers (the "Subscriptions"), pursuant to which, those subscribers have conditionally agreed to subscribe for an aggregate of 231,367,000 new shares (the "Subscription Share(s)") at a price of HK$1.38 per Subscription Share. The gross proceeds from the Subscription are approximately HK$319,000,000, which is intended to be partially utilised for the proposed Acquisition mentioned in note 42(a) above, the remaining balance of the proceeds shall be utilised as costs for the exploitation and exploration of existing and new wells of the Utah Gas and Oil Field. At the date of approving these audited financial statements, the Subscriptions have not yet been completed.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major Non-cash Transactions

Apart from details set out in notes 33 to 35 to the financial statements regarding the acquisition of subsidiaries, minority interest and the Business and note 36 regarding the disposal of subsidiaries, the Group had the following major non-cash transaction:

As set out in note 30(a)(iv) to the financial statements, the First Tranche Note of HK$30,000,000 and part of the Second Tranche Note of HK$5,000,000 of the First Convertible Notes was converted by Orient Day on 22 May 2009, resulting in 116,666,000 new ordinary shares being issued to Orient Day for a total consideration of HK$35,000,000. The consideration was satisfied by Orient Day partly by offsetting a loan of HK$25,000,000 due to Orient Day by the Company at that time (note 28).

44. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2009
Financial assets

	Group	
	Loans and receivables	**Total**
	HK$'000	*HK$'000*
Trade receivables	6,199	6,199
Financial assets included in prepayments, deposits and other receivables	47,521	47,521
Cash and cash equivalents	224,314	224,314
	278,034	278,034

Financial liabilities

	Financial liabilities at amortised cost	**Total**
	HK$'000	*HK$'000*
Trade payables	5,700	5,700
Financial liabilities included in other payables and accruals	51,696	51,696
Loan from immediate parent and ultimate controlling party	71,210	71,210
	128,606	128,606

31 December 2008
Financial assets

	Group	
	Loans and receivables	**Total**
	HK$'000	*HK$'000*
Trade receivables	10,250	10,250
Financial assets included in prepayments, deposits and other receivables	11,195	11,195
Due from an associate	5,593	5,593
Cash and cash equivalents	15,787	15,787
	42,825	42,825

Financial liabilities

	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*
Trade payables	8,767	8,767
Financial liabilities included in other payables and accruals	19,886	19,886
Loan from immediate parent and ultimate controlling party	25,000	25,000
Due to minority shareholders of subsidiaries	21,504	21,504
Interest-bearing bank borrowings, secured	60,380	60,380
	135,537	135,537

31 December 2009
Financial assets

	Company	
	Loans and receivables	Total
	HK$'000	*HK$'000*
Cash and cash equivalents	206,624	206,624
Other receivables	10,446	10,446
Due from subsidiaries	726,156	726,156
	943,226	943,226

Financial liabilities

	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals	4,073	4,073
Loan from immediate parent and ultimate controlling party	69,412	69,412
Due to subsidiaries	11,256	11,256
	84,741	84,741

31 December 2008
Financial assets

	Company	
	Loans and receivables	**Total**
	HK$'000	*HK$'000*
Cash and cash equivalents	8,882	8,882
Other receivables	80	80
Due from subsidiaries	527,076	527,076
	536,038	536,038

Financial liabilities

	Financial liabilities at amortised cost	**Total**
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals	2,003	2,003
Loan from immediate parent and ultimate controlling party	25,000	25,000
Due to subsidiaries	5,350	5,350
	32,353	32,353

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

The Group's principal financial instruments, comprise interest-bearing bank borrowings, other payables and accruals, the amount due to a minority shareholders of subsidiaries and, loan from immediate parent and ultimate controlling party. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest bearing bank borrowings, secured, with a floating interest rate.

The following the table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity* *HK$'000*
31 December 2009			
Hong Kong dollars	1%	(31)	–
	(1%)	31	–
31 December 2008			
Hong Kong dollars	1%	(854)	–
	(1%)	854	–

* Excluding retained profits/accumulated losses.

Foreign Currency Risk

The Group has minimal transactional currency exposures as the sales and purchases of the Group were mainly transacted in Chinese Renminbi ("RMB"), Euro ("Euro") and Hong Kong dollars (HKD). Approximately 17% (2008: 90%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, while almost 10% of costs are denominated in the units' functional currency.

The exchange rate of RMB and EURO were comparatively volatile.

The following table demonstrates the sensitivity at the end of reporting period to a reasonably possible change in the exchange rate of RMB and EURO exchange rate, with all other variable held constant, of the Group's profit before tax.

	Increase/ (decrease) in exchange rate *%*	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity* *HK$'000*
31 December 2009			
If HKD weakens against RMB	5%	122	–
If HKD strengthens against RMB	5%	(122)	–
If HKD weakens against EURO	5%	(20)	–
If HKD strengthens against EURO	5%	20	–
31 December 2008			
If HKD weakens against RMB	5%	(2,593)	–
If HKD strengthens against RMB	5%	2,593	–
If HKD weakens against EURO	5%	(221)	–
If HKD strengthens against EURO	5%	221	–

* Excluding retain profits/accumulated losses.

At 31 December 2008 and 2009, the Group had not hedged any foreign currency sales to reduce such foreign currency risk.

Credit Risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In additional, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amount due from an associate and other receivable, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

Liquidity Risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, and other interest-bearing loans. The directors of the Company are currently exploring various options for providing additional equity funding to the Group. Provided that such additional equity funding can be secured, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. A shareholder and director of the Group has indicated his willingness to continue financing the operations of the Group and the Company and has agreed not to demand repayment of the amounts due to him of his controlled entity until the Group and the Company is in a position to do so.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, was as follows:

Group
31 December 2009

	On demand	Less than 3 months	Held to 3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	5,700	–	–	5,700
Other payables and accruals	51,696	–	–	–	51,696
Due to immediate parent and ultimate controlling party	–	–	4,910	66,300	71,210
	51,696	5,700	4,910	66,300	128,606

31 December 2008

	On demand	Less than 3 months	Held to 3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	–	4,136	3,818	813	8,767
Other payables and accruals	19,886	–	–	–	19,886
Interest-bearing bank borrowings, secured	10	1,343	7,029	51,998	60,380
Due to immediate parent and ultimate controlling party	–	–	–	25,000	25,000
Due to minority shareholders of subsidiaries	5,167	–	–	16,337	21,504
	25,063	5,479	10,847	94,148	135,537

Company
31 December 2009

	On demand	Less than 3 months	Held to 3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	4,073	–	–	–	4,073
Due to subsidiaries	11,256	–	–	–	11,256
Due to immediate parent and ultimate controlling party	–	–	3,112	66,300	69,412
	15,329	–	3,112	66,300	84,741

31 December 2008

	On demand	Less than 3 months	Held to 3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	2,003	–	–	–	2,003
Due to subsidiaries	5,350	–	–	–	5,350
Due to immediate parent and ultimate controlling party	25,000	–	–	–	25,000
	32,353	–	–	–	32,353

Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders of issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes trade payables, other payable and accruals, a loan from the immediate and ultimate controlling party, and amounts due to minority shareholders of subsidiaries and interest-bearing bank borrowings, less cash and cash equivalents,. Capital includes equity attributable to owners of the Company. The gearing ratios as at the end of reporting periods were as follows:

Group

	2009	**2008**
	HK$'000	*HK$'000*
Trade payables	5,700	8,767
Other payables and accruals	51,696	19,886
Loan from immediate parent and ultimate controlling party	71,210	25,000
Interests-bearing bank borrowings, secured	–	60,380
Due to minority shareholders of subsidiaries	–	21,504
Less: Cash and cash equivalents	(224,314)	(15,787)
Net debt	(95,708)	119,750
Total equity	344,987	521,943
Equity and net debt	249,279	641,693
Gearing ratio	(38%)	19%

46. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 April 2010.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, Ascenda Cachet, in respect of the accountants' report on Festive Oasis Limited and its subsidiaries as set out in this appendix.

Ascenda Cachet CPA Limited
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24 May 2010

The Board of Directors
Pearl Oriental Innovation Limited

Dear Sirs,

We set out below our report on the financial information (the "Oasis Financial Information") relating to Festive Oasis Limited ("Oasis") and its subsidiaries (collectively, the "Oasis Group") for the period from 29 September 2009 to 31 December 2009 (the "Relevant Period"), including the combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Oasis Group for the Relevant Period and of the combined statement of financial position of the Oasis Group and the statement of financial position of Oasis as at 31 December 2009 together with the notes thereto, prepared for inclusion in a circular (the "Circular") dated 24 May 2010 issued by Pearl Oriental Innovation Limited (the "Company"). The Company and the vendors (the "Vendors"), namely Charcon Assets Limited ("Charcon", a company wholly owned by Mr. Wong Kwan ("Mr. Wong"), chairman, chief executive and executive director of the Company) and Marvel Sunlight Limited ("Marvel", a company wholly owned by an independent third party (the "Third Party"), a party independent and not connected to the Company), entered into an agreement on 9 January 2010 and supplemental agreements on 18 March 2010 and 10 May 2010 (collectively, the "Agreements"), pursuant to which, the Company will acquire (the "Acquisition") the 100% equity interest in Oasis, the amount due by the Oasis to one of its shareholders, Charcon, (a shareholder which owns a 35% interest in Oasis) (the "Sales Loan") and, through 2 phases, the 100% ownership interest in respect of the oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field (the "Ownership Interest").

In phase 1, the Company will acquire the 100% equity interest in Oasis and the Sales Loan at a consideration of US$200 million (equivalent to approximately HK$1,560 million, the "Phase 1 Consideration") which is to be satisfied by (i) as to US$50 million (equivalent to approximately HK$390 million) by cash; and (ii) as to US$150 million (equivalent to approximately HK$1,170 million) by the issue of up to 847,810,000 consideration shares in the Company at a price (the "Price") of HK$1.38 per Share. As a condition to the payment of the Phase 1 Consideration, the Vendors will transfer to the Oasis Group a 70% Ownership Interest.

In phase 2, the Company may, at its option, further acquire the remaining 30% Ownership Interest and transfer the same to the Oasis Group at a consideration of US$25 million (equivalent to approximately HK$195 million) which is to be satisfied by (i) as to US$25 million (equivalent to approximately HK$195 million) by cash in full; or (ii) if the Vendors elect, as to US$12.5 million (equivalent to approximately HK$97.5 million) by cash and the remaining sum of US$12.5 million

(equivalent to approximately HK$97.5 million) by the issue of 70,650,000 consideration shares in the Company at HK$1.38 per share. Subsequent to the Relevant Period on 7 January 2010, as part of a group reorganisation (the "Group Reorganisation") for the purpose of the Acquisition, Oasis became the holding company of Shiny One Limited ("Shiny One BVI"). Details of the Group Reorganisation and the basis of presentation of the Oasis Financial Information is set out in notes 1 and 2.1 to this report, respectively.

The Acquisition constitutes a very substantial acquisition of the Company under the Rules (the "Listing Rules") Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and is subject to the approval by the shareholders of the Company at a special general meeting of the Company to be convened and held.

Oasis was incorporated in the British Virgin Islands (the "BVI") as a private company with limited liability on 9 December 2009. On incorporation, Oasis's authorised share capital was US$50,000, divided into 50,000 ordinary shares of US$1 each. Subsequent to the reporting period on 7 January 2010, a total of 1,000 ordinary shares were issued at par for cash for the purpose of the Group Reorganisation. Thereafter and at the date of this report, Oasis has been and is owned (i) as to 35% by Charcon and (ii) as to 65% by Marvel. Marvel has agreed with Dr. Lew Mon Hung ("Dr. Lew", the deputy chairman and executive director of the Company) to transfer the beneficial interest in its 15% equity interests in Oasis to Dr. Lew prior to the completion of Phase 1 of the Acquisition. During the Relevant Period, the principal activity of Oasis was investment holding.

Shiny One BVI was incorporated on 29 September 2009 in the BVI as a private company with limited liability with 1 share of US$1 each was issued on incorporation as a subscriber share. On 21 December 2009, Shiny One BVI further allotted 99 shares of US$1 each at par for cash for the purpose of the Group Reorganisation. After the allotment of the shares, Shiny One BVI was owned as to 65% by the Third Party and as to 35% by Mr. Wong. Subsequent to the reporting period on 7 January 2010, for the purpose of the Group Reorganisation, the Third Party and Mr. Wong transferred all of their respective equity interest in Shiny One BVI to Oasis. After the completion of the abovementioned transfer, Shiny One BVI became a direct wholly-owned subsidiary of Oasis. During the Relevant Period, the principal activity of Shiny One BVI was investment holding.

Shiny One USA, LLC ("Shiny One USA") was incorporated in the United States of America (the "USA") with limited liability on 8 December 2009. Shiny One USA is a direct wholly-owned subsidiary of Shiny One BVI. During the Relevant Period, Shiny One USA was dormant. On 12 December 2009, Shiny One USA entered into a sale, purchase and development agreement with Thurston Energy, LLC (the "Seller") and Thurston Energy Operating Company, LLC (the "Operator") in respect of the acquisition of the ownership interest in the Utah Gas and Oil Field. After the completion of acquisition, Shiny One USA will engage in natural gas and petroleum exploration, exploitation and production in the area located in Utah, the USA.

As at the date of this report, no statutory audited financial statements have been prepared by Oasis for the period from 9 December 2009 (the date of its incorporation) to 31 December 2009.

As at the date of this report, no statutory audited financial statements have been prepared by Shiny One BVI for the period from 29 September 2009 (the date of its incorporation) to 31 December 2009.

As at the date of this report, no statutory audited financial statements have been prepared by Shiny One USA for the period from 8 December 2009 (the date of its incorporation) to 31 December 2009.

For the purpose of this report, the directors of Oasis have prepared the combined financial statements of the Oasis Group for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (the "Oasis Underlying Financial Statements") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Oasis Financial Information as set out in this report has been prepared from the Oasis Underlying Financial Statements, after making such adjustments where appropriate. The directors of Oasis are responsible for the preparation and the true and fair presentation of the Oasis Financial Information, which gives a true and fair view. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial information that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In preparing the Oasis Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to form an independent opinion, based on our examination, on the Oasis Financial Information and to report our opinion to you.

PROCEDURES PERFORMED IN RESPECT OF THE RELEVANT PERIOD

For the purpose of this report, we have carried out an independent audit on the Oasis Financial Information for the Relevant Period in accordance with the Hong Kong Standards on Auditing issued by HKICPA and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and Reporting Accountant" issued by HKICPA.

OPINION

In our opinion, the Oasis Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the state of affairs of the Oasis Group and Oasis as at 31 December 2009 and of the combined loss and cash flows of the Oasis Group for the Relevant Period.

Without qualifying our opinion, we draw attention to note 2.1 to the Oasis Financial Information which indicates that the Oasis Group had net current liabilities and a deficiency in assets of HK$1,034,541 at 31 December 2009 and Oasis had net current liabilities and a deficiency in assets of HK$4,913,041 and HK$2,262 respectively, at 31 December 2009. Despite the above, the Oasis Financial Information has been prepared on a going concern basis, the validity of which depends upon the fact that one of Oasis's current shareholders, Charcon, has agreed not to demand the repayment of the amount due to it until the Oasis Group is in a position to do so. The Company also has agreed not to demand the repayment of the Sales Loan (to be transferred by Charcon to the Company as part of Acquisition) until the Oasis Group is in a position to do so. The Oasis Financial Information does not include any adjustments that would result from a failure to obtain such continuous financial support, which indicates the existence of a material uncertainty which may cast significant doubt about the Oasis Group's ability to continue as a going concern. Should the Oasis Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts and to provide for further liabilities which might arise. We consider that the fundamental uncertainty has been properly disclosed in the Oasis Financial Information. Our report is not qualified in respect of the fundamental uncertainty relating to the going concern basis.

FINANCIAL INFORMATION

The following is the Oasis Financial Information for the Relevant Period and as at 31 December 2009 prepared on the basis set out in note 2 below.

Combined statement of comprehensive income of the Oasis Group

	Notes	**Period from 29 September 2009 to 31 December 2009** *HK$*
REVENUE	*4*	–
COST OF SALES		–
GROSS PROFIT		–
Other income and gains		–
Administrative expenses		(1,042,341)
LOSS BEFORE TAX	*5*	(1,042,341)
Income tax expense	*7*	–
LOSS FOR THE PERIOD		(1,042,341)
Other comprehensive income		–
Income tax effect		–
Other comprehensive income for the period, net of tax		–
Total comprehensive income for the period		(1,042,341)
Loss attributable to:		
Equity owners of Oasis		(1,042,341)
Total comprehensive income attributable to:		
Equity owners of Oasis		(1,042,341)

Combined statement of financial position of the Oasis Group

	Notes	31 December 2009 HK$
CURRENT ASSETS		
Prepayments, deposits and other receivables	*10*	3,878,500
Total current assets		3,878,500
CURRENT LIABILITIES		
Due to a shareholder	*11*	4,913,041
Total current liabilities		4,913,041
NET CURRENT LIABILITIES		(1,034,541)
Net liabilities		(1,034,541)
DEFICIENCY IN ASSETS		
Issued capital	*13*	7,800
Accumulated loss		(1,042,341)
Total deficiency in assets		(1,034,541)

Combined statement of change in equity of the Oasis Group

	Issued capital HK$	Accumulated loss HK$	Total HK$
Issue of shares upon incorporation	7,800	–	7,800
Total comprehensive income for the period	–	(1,042,341)	(1,042,341)
At 31 December 2009	7,800	(1,042,341)	(1,034,541)

Combined statement of cash flows of the Oasis Group

	Notes	Period from 29 September 2009 to 31 December 2009 HK$
CASH FLOWS FROM OPERATING ACTIVITES		
Loss before tax		(1,042,341)
Net cash outflow from operating activities		(1,042,341)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits paid	*10*	(3,878,500)
Net cash outflow from investing activities		(3,878,500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from a shareholder	*11, 13*	4,920,841
Net cash inflow from financing activities		4,920,841
NET INECREASE IN CASH AND CASH EQUIVALENTS		–
Cash and cash equivalents at beginning of period		–
CASH AND CASH EQUIVALENTS AT END OF PERIOD		–
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances		–

Statement of financial position of Oasis

		31 December 2009
	Notes	*HK$*
NON-CURRENT ASSETS		
Investment in a subsidiary	*12*	4,915,303
CURRENT LIABILITIES		
Due to a shareholder	*11*	4,913,041
Total current liabilities		4,913,041
NET CURRENT LIABILITIES		(4,913,041)
Net liabilities		(2,262)
DEFICIENCY IN ASSETS		
Issued capital	*13*	7,800
Accumulated loss		(5,538)
Total deficiency in assets		(2,262)

NOTES TO THE FINANCIAL INFORMATION

1. GROUP REORGANISATION AND CORPORATE INFORMATION

Oasis was incorporated in the British Virgin Islands (the "BVI") as a private company with limited liability on 9 December 2009. On incorporation, Oasis's authorised share capital was US$50,000, divided into 50,000 ordinary shares of US$1 each. Subsequent to the reporting period on 7 January 2010, a total of 1,000 ordinary shares were issued at par for cash for the purpose of the Group Reorganisation. Thereafter and at the date of this report, Oasis has been and is owned (i) as to 35% by Charcon and (ii) as to 65% by Marvel. Marvel agreed with Dr. Lew Mon Hung ("Dr. Lew", the deputy chairman and executive director of the Company) to transfer the beneficial interest in its 15% equity interests in Oasis to Dr. Lew prior to the completion of Phase 1 of the Acquisition. During the Relevant Period, the principal activity of Oasis was investment holding.

Shiny One BVI was incorporated on 29 September 2009 in the BVI as a private company with limited liability with 1 share of US$1 was issued on incorporation as a subscriber share. On 21 December 2009, Shiny One BVI further allotted 99 shares of US$1 each at par for for cash for the purpose of the purpose of the Group Reorganisation. After the allotment of the shares, Shiny One BVI was owned as to 65% by the Third Party and as to 35% by Mr. Wong Kwan ("Mr. Wong"). Subsequent to the reporting period on 7 January 2010, the Third Party and Mr. Wong transferred all of their respective equity interest in Shiny One BVI to Oasis. After the completion of the abovementioned transfer, Shiny One BVI became a direct wholly-owned subsidiary of Oasis. During the Relevant Period, the principal activity of Shiny One BVI was investment holding.

Shiny One USA, LLC ("Shiny One USA") was incorporated in the United States of America (the "USA") with limited liability on 8 December 2009. Shiny One USA is a direct wholly-owned subsidiary of Shiny One BVI. During the Relevant Period, Shiny One USA was dormant. On 12 December 2009, Shiny One USA entered into a sale, purchase and development agreement with Thurston Energy, LLC (the "Seller") and Thurston Energy Operating Company, LLC (the "Operator"). After the completion of acquisition, the principal activities of the Oasis Group will principally be natural gas and petroleum exploration, exploitation and production in the area located in Utah, USA. During the Relevant Period, Shiny One USA has not commenced its business.

After the completion of the Group Reorganisation on 7 January 2010, Oasis became the holding company of the companies comprising the Oasis Group.

Particulars of Shiny One BVI and Shiny One USA as at 31 December 2009 were as follows:

Name of subsidiary	Place and date of incorporation/establishment	Nominal value of issued share capital/Paid up capital	Attributable equity interest held by Oasis		Principal activity
			Direct	Indirect	
Shiny One Limited ("Shiny One BVI")	British Virgin Islands 29 September 2009	US$100	100%	–	Investment holding
Shiny One USA, LLC ("Shiny One USA")	United States of America 8 December 2009	–	–	100%	*Note 1*

Note 1: During the Relevant Period, Shiny One USA was dormant. On 12 December 2009, Shiny One USA entered into a sale, purchase and development agreement with Thurston Energy, LLC (the "Seller") and Thurston Energy Operating Company, LLC (the "Operator"). After the completion of the Acquisition, Shiny One USA are going to engage in natural gas and petroleum exploration, exploitation and production in the area located in Utah, the USA.

In the opinion of the directors of Oasis, at the date of this report, the ultimate holding company of Oasis is Marvel Sunlight Limited, which was also Oasis' holding company and was incorporated in the BVI with limited liability.

2.1 BASIS OF PREPARATION

Basis of presentation

The Group Reorganisation involved business combinations of entities under common control and the Oasis Group is regarded and accounted for as a continuing group. Accordingly, for the purpose of this report, the Oasis Financial Information has been prepared on a combined basis by applying the principles of merger accounting as detailed below.

The Oasis Financial Information has been prepared as if the Oasis Group had been in existence throughout the Relevant Period. The combined statement of financial position of the Oasis Group as at 31 December 2009 have been prepared to present the assets and liabilities of the Oasis Group as at that date as if the current group structure had been in existence at that date and the share capital of Oasis had been issued at that date.

Basis of preparation

The Oasis Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. In addition, the Oasis Financial Information includes applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance. The Oasis Financial Information has been prepared under the historical cost convention. The Oasis Financial Information are presented in Hong Kong dollars ("HK$").

Despite the fact that the Oasis Group had net current liabilities and a deficiency in assets of HK$1,034,541 at 31 December 2009 and Oasis had net current liabilities and a deficiency in assets of HK$4,913,041 and HK$2,262, respectively as at 31 December 2009, the Oasis Financial Information has been prepared on the basis that Oasis will continue to operate as a going concern. Such going concern basis is based upon the fact that one of Oasis's current shareholders, Charcon, has agreed not to demand the repayment of the amount due to it until the Oasis Group is in a position to do so. The Company also has agreed not to demand the repayment of the Sales Loan (to be transferred by Charcon to the Company as part of Acquisition) until the Oasis Group is in a position to do so.

Application of merger accounting

For the purpose of these combined Oasis Financial Information, the combining entities are Oasis, Shiny One BVI and Shiny One USA (collective referred to as the "Oasis Group"). The combined Oasis Financial Information have been prepared to reflect the aggregation of the financial information of Oasis and Shiny One BVI and Shiny One USA, both are ultimately controlled by the Third Party and Mr. Wong.

These combined Oasis Financial Information have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by HKICPA.

The combined Oasis Financial Information include the combined statements of financial position, comprehensive income and cash flows of the companies comprising the Oasis Group as if the current group structure had been in existence as at 29 September 2009 or since their respective dates of incorporation/ establishment. For companies acquired from (or disposed to) a third party during the period, they would be included in (excluded from) the combined Oasis Financial Information of the Oasis Group from the date of that acquisition (disposal).

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Oasis Group has not early adopted the following new and revised HKFRSs, which have been issued but are not yet effective, in the Oasis Financial Information:

HKFRS 1 (Revised)	First-time adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions[2]
HKFRS 9	Financial Instruments[3]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 39 Amendments	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items[1]
HK (IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs*^ which sets out amendments to a number of HKFRSs primarily with a view to reviewing inconsistencies and clarify wording.

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

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

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

4 *Effective for annual periods beginning on or after 1 July 2010*

* *Improvements to HKFRS 5 issued on October 2008, which is effective for the annual periods on or after 1 July 2009.*

^ *Improvements to HKFRSs issued on May 2009, contain amendments to HKFRS 2, HKFRS 5,HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16. These amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.*

The Oasis Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the certain new and revised HKFRSs may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Oasis Group's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies Oasis controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in Oasis' statement of comprehensive income to the extent of dividends received and receivable. Oasis' interests in subsidiaries are stated at cost less any impairment losses.

Merger accounting for common control combination

The combined financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on combination.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined net of any depreciation/amortisation had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Oasis Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Oasis Group; (ii) has an interest in the Oasis Group that gives it significant influence over the Oasis Group; or (iii) has joint control over the Oasis Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Oasis Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Oasis Group assesses whether a contract contains an embedded derivative when the Oasis Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Oasis Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of reporting period.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Oasis Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis.

Impairment of financial assets

The Oasis Group assesses at each of the end of the reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor, and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Oasis Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Oasis Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Oasis Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Oasis Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Oasis Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Oasis Group could be required to repay.

Financial liabilities at amortised cost

Financial liabilities including amount due to a shareholder is initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance cost" in the statement of comprehensive income.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of comprehensive income.

Cash and cash equivalents

For the purpose of the combined cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Oasis Group's cash management.

For the purpose of the statement of financial positions, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each of the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each of the end of the reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Oasis Group and when the revenue can be measured reliably.

Foreign currencies

The Oasis Financial Information is presented in Hong Kong dollars, which is Oasis' presentation currency. Each entity in the Oasis Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of Oasis at the exchange rates ruling at the end of the reporting period and, their

statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

For the purpose of the combined cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Oasis Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Assessment of impairment of non-current assets

The Oasis Group performs impairment review annually whether non-current assets have any impairment losses based on their recoverable amount.

4 REVENUE AND SEGMENTAL INFORMATION

The Oasis Group did not generate any revenue during the Relevant Period.

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

In accordance with HKFRS 8 "Operating Segments", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown as the Oasis Group have not commenced its business during the Relevant Period.

5 LOSS BEFORE TAX

The Oasis Group's loss before tax is arrived after charging:

	Period from 29 September 2009 to 31 December 2009 *HK$*
Auditors' remuneration	–

6 DIRECTORS' REMUNERATION

No directors received any fee or emoluments in respect of their services rendered to the Oasis Group during the Relevant Period.

7 INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as Oasis Group had no assessable profits arising in Hong Kong during the Relevant Period.

No provision for USA corporate income tax has been made as the Oasis Group had no assessable profits arising from the USA during the Relevant Period.

A reconciliation of the tax expense applicable to profits tax using the statutory rate of 16.5% for Oasis to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, is as follows:

	Period from 29 September 2009 to 31 December 2009	
	HK$	*%*
Loss before tax	(1,042,341)	
Tax at the statutory tax rate of Oasis	(171,986)	16.5
Expenses not deductible for tax	171,986	(16.5)
Tax charge at the Oasis Group's effective rate	–	–

The Oasis Group had no significant deferred tax liabilities for the Relevant Period or as at 31 December 2009.

8 LOSS ATTRIBUTABLE TO EQUITY OWNERS OF OASIS

Loss attributable to the equity owners of Oasis included a loss of HK$5,538 for the period from 9 December 2009 (date of its incorporation) to 31 December 2009, which has been dealt with in the Oasis Financial Information.

9 EARNINGS PER SHARE

No earnings per share is presented as the calculation of basic/diluted earnings per shares is not meaningful for the purpose of this report.

10 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – OASIS GROUP

	31 December 2009
	HK$
Deposits paid	3,878,500

On 12 December 2009, Shiny One USA entered into a sales, purchase and development agreement with Thurston Energy LLC, (the "Seller") and Thurston Energy Operating Company, LLC, (the "Operator"), in respect of the acquisition of the entire ownership interest (the "Ownership Interest") of the Utah Gas and Oil Field at a total consideration of US$59,500,000 (equivalent to HK$464,100,000), which is subject to certain price adjustments stipulated in the agreement.

The Utah Gas and Oil Field is located in Uinta Basin gas and oilfield area, Utah, United States. It covers an area of around 3,692 acres. The Company has an intention to drill, explore and exploit 360 wells in the Utah Gas and Oil Field in coming years after Completion of the Acquisition.

It is planned to drill up to around 40 new wells per annum in average in coming years but such plan is subject to the actual development schedule of the Utah Gas and Oil Field.

During the Relevant Period, the Group has paid a deposit of US$500,000 (equivalent to HK$3,878,500) in respect of the proposed acquisition of an ownership interest in the Utah Gas and Oil Field. The Oasis Group had a capital commitment for the remaining balance of US$59,000,000 (equivalent to HK$460,221,500) (Note 15).

None of the above assets is either past due or impaired.

11 DUE TO A SHAREHOLDER – OASIS AND OASIS GROUP

The amount due to Charcon, a shareholder of Oasis, is unsecured, interest-free and has no fixed terms of repayment. Charcon has agreed not to demand the repayment of the amount (the "Sales Loan") due to it until the Oasis Group is in a position to do so. The Company also has agreed not to demand the repayment of the Sales Loan (to be transferred by Charcon to the Company as part of the Acquisition) until the Oasis Group is in a position to do so.

12 INVESTMENT IN A SUBSIDIARY – OASIS

	31 December 2009 *HK$*
Unlisted shares, at cost	780
Due from a subsidiary	4,914,523
	4,915,303

The amount due from a subsidiary of Oasis is unsecured, interest-free and has no fixed terms of repayment.

Details of the subsidiaries as at 31 December 2009 were as follows:

Name of subsidiary	**Place and date of incorporation/establishment**	**Nominal value of issued share capital/Paid up capital**	**Attributable equity interest held by Oasis**		**Principal activity**
			Direct	**Indirect**	
Shiny One Limited ("Shiny One BVI")	British Virgin Islands 29 September 2009	US$100	100%	–	Investment holding
Shiny One USA, LLC ("Shiny One USA")	United States of America 8 December 2009	–	–	100%	*Note 1*

Note 1: During the Relevant Period, Shiny One USA was dormant. On 12 December 2009, Shiny One USA entered into a sale, purchase and development agreement with Thurston Energy, LLC (the "Seller") and Thurston Energy Operating Company, LLC (the "Operator"). After the completion of the Acquisition, Shiny One USA are going to engage in natural gas and petroleum exploration, exploitation and production in the area located in Utah, the USA.

13 SHARE CAPITAL

	31 December 2009 *HK$*
Authorised:	
50,000 ordinary shares of US$1 each	390,000
Issued and fully paid:	
1,000 ordinary shares of US$1 each	7,800

On incorporation, Oasis' authorised share capital was US$50,000, divided into 50,000 ordinary shares of US$1 each. Subsequent to the reporting period on 7 January 2010, a total of 1,000 ordinary shares were issued at par for cash for the purpose of the Group Reorganisation. For the purpose of this report, the Oasis Financial Information has been prepared as if the share capital of Oasis had been issued at 31 December 2009. The amount of paid up capital was credited against the amount due to a shareholder (note 11).

14 CONTINGENT LIABILITIES

At 31 December 2009, neither the Oasis Group nor Oasis had any significant contingent liabilities.

15 CAPITAL COMMITMENTS

Except for the capital commitments detailed in note 10 above, the Oasis Group had no capital commitments at 31 December 2009.

At 31 December 2009, Oasis did not have any significant capital commitments.

16 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2009 were as follows:

Oasis Group

31 December 2009

Financial assets	**Loans and receivables**
	HK$
Financial assets included in:	
Prepayments, deposits and other receivables	3,878,500

Financial liabilities	**Financial liabilities at amortised cost**
	HK$
Due to a shareholder	4,913,041

Oasis

31 December 2009

Financial assets	**Loans and receivables**
	HK$
Due from a subsidiary	4,914,523

Financial liabilities	**Financial liabilities at amortised cost**
	HK$
Due to a shareholder	4,913,041

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Oasis Group's principal financial instruments, other than derivatives, comprise the amount due to a shareholder. The main purpose of these financial instruments is to raise finance for the Oasis Group's operations.

The main risks arising from the Oasis Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Oasis Group's accounting policies in relation to derivatives are set out in note 2.3 to the accountants' report.

Interest rate risk

The Oasis Group has no significant interest-bearing financial assets and liabilities with a floating interest rate. The Oasis Group's results and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

The Oasis Group does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in United States dollar and Hong Kong dollar.

Credit risk

The Oasis Group's credit risk is primarily attributable to prepayments, deposits and other receivables. There are no significant credit risk within the Oasis Group.

Liquidity risk

The Oasis Group has a deficiency in assets at the end of the reporting period; however, the directors are satisfied that the Oasis Group will be able to meet in full its financial obligations as they fall due for the foreseeable future as one of the Oasis's shareholders, Charcon, has agreed not to demand repayment of the amount (the "Sales Loan") due to it until the Oasis Group is in a position to do so. The Company also has agreed not to demand the repayment of the Sales Loan (to be transferred by Charcon to the Company as part of the Acquisition) until the Oasis Group is in a position to do so.

Capital management

The primary objective of the Oasis Group's capital management is to safeguard the Oasis Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Oasis Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt represents the amounts due to a shareholder. Capital includes equity attributable to equity shareholders of Oasis.

	31 December 2009 *HK$*
Due to a shareholder	4,913,041
Less: Cash and cash equivalent	(–)
Net debt	4,913,041
Equity attributable to equity holders	(1,034,541)
Capital and net debt	3,878,500
Gearing ratio	127%

18 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Oasis Group in respect of any period subsequent to 31 December 2009

Yours faithfully

Ascenda Cachet CPA Limited
(Formerly Cachet Certified Public Accountants Limited)
Certified Public Accountants

Chan Yuk Tong
Practicing Certificate Number P03723

Hong Kong

Ascenda Cachet CPA Limited
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24 May 2010

The Directors
Pearl Oriental Innovation Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Pearl Oriental Innovation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Festive Oasis Limited ("Oasis") and its subsidiaries (the "Oasis Group", with the Group, the "Enlarged Group"), which has been prepared by the Directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the 100% equity interest in Oasis, the amount due by the Oasis to one of its shareholders, Charcon Assets Limited ("Charcon", a shareholder which owns a 35% interest in Oasis) (the "Sales Loan") and, through 2 phases, the 100% ownership interest in respect of oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field (the "Ownership Interest") pursuant to an agreement ("the "Agreement") dated 9 January 2010 and a supplemental agreements (the "Supplemental Agreements") dated 18 March 2010 and 10 May 2010, entered into between the Company and the vendors (the "Vendors"), namely Charcon Assets Limited and Marvel Sunlight Limited, might have affected the financial information presented, for inclusion as Appendix III to the circular of Company dated 24 May 2010 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out in Section A of Appendix III to the Circular.

Respective Responsibilities Of Directors Of The Company And Reporting Accountants

It is the responsibility of the Directors of the Company to prepare the unaudited pro forma financial information of the Enlarged Group in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information of the Enlarged Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information of the Enlarged Group beyond that owed to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information of the Enlarged Group with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information of the Enlarged Group has been properly compiled by the Directors of Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information of the Enlarged Group as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Financial Information.

The unaudited pro forma financial information of the Enlarged Group is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance of indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 December 2009 or at any future date; or
- the results and cash flows of the Enlarged Group for the year ended 31 December 2009 or for any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information of the Enlarged Group has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information of the Enlarged Group as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully
Ascenda Cachet CPA Limited
(Formerly Cachet Certified Public Accountants Limited)
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma financial information of the Enlarged Group has been prepared and included in the Company's circular dated 24 May 2010 (the "Circular") to illustrate the effect of the proposed acquisition to acquire by the Company (the "Acquisition") the 100% equity interest in Oasis, the amount due by the Oasis to one of its shareholders, Charcon Assets Limited ("Charcon", a shareholder which owns a 35% interest in Oasis) (the "Sales Loan") and, through 2 phases, the 100% ownership interest in respect of oil, gas and/or mineral leases, title and related rights in the Utah Gas and Oil Field (the "Ownership Interest"). In phase 1 (the "Phase 1 Acquisition"), the Company will acquire the 100% equity interest in Oasis and the Sales Loan at a consideration of US$200 million (equivalent to approximately HK$1,560 million, the "Phase 1 Consideration") which is to be satisfied by (i) as to US$50 million (equivalent to approximately HK$390 million) by cash ("Scenario 1"); and (ii) as to US$150 million (equivalent to approximately HK$1,170 million) by the issue of up to 847,810,000 consideration shares in the Company at a price (the "Price") of HK$1.38 per Share ("Scenario 2"). As a condition to the payment of the Phase 1 Consideration, the Vendors will transfer, a 70% Ownership Interest to the Oasis Group.

After completion of the Phase 1 Acquisition, the Company shall hold the entire equity interest of Oasis, which shall in turn own a 70% of the Ownership Interest.

In phase 2 (the "Phase 2 Acquisition"), the Company may, at its option, further acquire the remaining 30% Ownership Interest and transfer to the Oasis Group at a consideration of US$25 million (equivalent to approximately HK$195 million) (the "Phase 2 Consideration") which is to be satisfied by (i) as to US$25 million (equivalent to approximately HK$195 million) will be paid by cash in full; or (ii) if the vendors elect, as to US$12.5 million (equivalent to approximately HK$97.5 million) will be paid by cash and the remaining sum of US$12.5 million (equivalent to approximately HK$97.5 million) by the issue of 70,650,000 consideration shares in the Company at HK$1.38 per Share.

The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group are prepared based on the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 as extracted from the annual report of the Company set out in Appendix I to the Circular and the audited combined statement of comprehensive income of the Oasis Group for the period from 29 September 2009 to 31 December 2009 as extracted from the accountants' report on the Oasis Group as set out in Appendix II to the Circular, and as if the Phase 1 Acquisition and Phase 2 Acquisition have been completed on 1 January 2009. A narrative description of pro forma adjustments that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared based on the audited consolidated statement of cash flows of the Group for the year ended 31 December 2009 as extracted from the annual report of the Company set out in Appendix I to the Circular and the audited combined statement of cash flows of the Oasis Group for the period from 29 September 2009 to 31 December 2009 as extracted from the accountants' report on the Oasis Group as set out in Appendix II to the Circular, and as if the Phase 1 Acquisition and Phase 2 Acquisition have been completed on 1 January 2009. A narrative description of pro forma adjustments that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2009 as extracted from the annual report of the Group for the year ended 31 December 2009 as set out in Appendix X to the Circular and the audited combined statement of financial position of the Oasis Group as at 31 December 2009 as extracted from the accountants' report on the Oasis Group as set out in Appendix II and as if the Phase 1 Acquisition and Phase 2 Acquisition have been completed on 31 December 2009. A narrative description of pro forma adjustments that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the completion of the Phase 1 Acquisition and Phase 2 Acquisition. It is prepared for illustrative purpose only in accordance with Paragraph 29 of Chapter 4 of the Listing Rules to provide the investors with further information to illustrate the effect on the Group after the completion of Phase 1 Acquisition and Phase 2 Acquisition and it does not purport to represent what the results, cash flows or financial position of the Enlarged Group following the completion of the Phase 1 Acquisition and Phase 2 Acquisition.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular and the accountants' report on the Oasis Group as set out in Appendix II to this Circular, and other financial information included elsewhere in this Circular.

(i) Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the year ended 31 December 2009

	The Group's audited consolidated statement of comprehensive income for the the year ended 31 December 2009	The Oasis Group's audited combined statement of comprehensive income for the period from 29 September 2009 to 31 December 2009	Sub-total	Phase 1 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2009 as if Phase 1 Acquisition was completed	Scenario 1 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was satisfied by cash in full	Scenario 2 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was partly satisfied by cash and partly satisfied by issue of shares
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Audited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
			(1)	*(Note a)*	*(Note b)*	*(2) = (1) + (a) +(b)*	*(Note c)*	*(Note d)*	*(3) = (2) + (c) +(d)*	*(Note e)*	*(Note f)*	*(4) = (2)+(e)+(f)*
Revenue	195,530	–	195,530			195,530			195,530			195,530
Cost of services provided/cost of sales	(175,091)	–	(175,091)			(175,091)			(175,091)			(175,091)
Gross profit	20,439	–	20,439			20,439			20,439			20,439
Other income and gains	23,968	–	23,968			23,968			23,968			23,968
Selling and distribution costs	(5,345)	–	(5,345)			(5,345)			(5,345)			(5,345)
Administrative expenses	(78,242)	(1,042)	(79,284)		(2,200)	(81,484)		(150)	(81,634)		(150)	(81,634)
Finance costs	(5,597)	–	(5,597)			(5,597)			(5,597)			(5,597)
Impairment of losses on available-for-sales investments	(922,318)		(922,318)			(922,318)			(922,318)			(922,318)
Share of losses of associates	(548)	–	(548)			(548)			(548)			(548)
Loss before tax	(967,643)	(1,042)	(968,685)			(970,885)			(971,035)			(971,035)
Tax	(319)	–	(319)			(319)			(319)			(319)
Loss for the year	(967,962)	(1,042)	(969,004)			(971,204)			(971,354)			(971,354)

	The Group's audited consolidated statement of comprehensive income for the the year ended 31 December 2009	The Oasis Group's audited combined statement of comprehensive income for the period from 29 September 2009 to 31 December 2009	Sub-total	Phase 1 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2009 as if Phase 1 Acquisition was completed	Scenario 1 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was satisfied by cash in full	Scenario 2 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was partly satisfied by cash and partly satisfied by issue of shares
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Audited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
			(1)	*(Note a)*	*(Note b)*	*(2) = (1) + (a) +(b)*	*(Note c)*	*(Note d)*	*(3) = (2) + (c) +(d)*	*(Note e)*	*(Note f)*	*(4) = (2)+(e)+(f)*
Other comprehensive income:												
Exchange differences on translating foreign operations	1,949	–	1,949			1,949			1,949			1,949
Income tax relating to components of other comprehensive income	–	–	–			–			–			–
Other comprehensive income for the year, net of tax	1,949	–	1,949			1,949			1,949			1,949
Total comprehensive income for the year	(966,013)	(1,042)	(967,055)			(969,255)			(969,405)			(969,405)
Loss attributable to:												
Owners of the Company	(566,840)	(1,042)	(567,882)		(2,200)	(570,082)		(150)	(570,232)		(150)	(570,232)
Minority interests	(401,122)	–	(401,122)			(401,122)			(401,122)			(401,122)
	(967,962)	(1,042)	(969,004)			(971,204)			(971,354)			(971,354)

	The Group's audited consolidated statement of comprehensive income for the the year ended 31 December 2009	The Oasis Group's audited combined statement of comprehensive income for the period from 29 September 2009 to 31 December 2009	Sub-total	Phase 1 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2009 as if Phase 1 Acquisition was completed	Scenario 1 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was satisfied by cash in full	Scenario 2 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was partly satisfied by cash and partly satisfied by issue of shares
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Audited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
			(1)	*(Note a)*	*(Note b)*	*(2) = (1) + (a) +(b)*	*(Note c)*	*(Note d)*	*(3) = (2) + (c) +(d)*	*(Note e)*	*(Note f)*	*(4) = (2)+(e)+(f)*
Total comprehensive income attributable to:												
Owners of the Company	(564,911)	(1,042)	(565,953)		(2,200)	(568.153)		(150)	(568,303)		(150)	(568,303)
Minority interests	(401,102)	–	(401,102)			(401,102)			(401,102)			(401,102)
	(966,013)	(1,042)	(967,055)			(969,255)			(969,405)			(969,405)

(ii) Unaudited pro forma consolidated statement of financial position as at 31 December 2009

	The Group's audited consolidated statement of financial position as at 31 December 2009	The Oasis Group's audited combined statement of financial position as at 31 December 2009	Sub-total	Phase 1 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of financial position as at 31 December 2009 as if Phase 1 Acquisition was completed	Scenario 1 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of financial position as at 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was satisfied by cash in full	Scenario 2 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of financial position as at 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was partly satisfied by cash and partly satisfied by issue of shares
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Audited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
			(1)	*(Note a)*	*(Note b)*	*(2) = (1) + (a) +(b)*	*(Note c)*	*(Note d)*	*(3) = (2) + (c) +(d)*	*(Note e)*	*(Note f)*	*(4) = (2)+(e)+(f)*
NON-CURRENT ASSETS												
Property, plant and equipment	64,465	–	64,465			64,465			64,465			64,465
Prepaid land lease payments	–	–	–			–			–			–
Deposits paid	761		761			761			761			761
Goodwill	121,945	–	121,945			121,945			121,945			121,945
Intangible assets	–	–	–	1,556,107		1,556,107	195,000		1,751,107	195,000		1,751,107
Available-for-sales investments	–	–	–			–			–			–
Total non-current assets	187,171	–	187,171			1,743,278			1,938,278			1,938,278
CURRENT ASSETS												
Inventories	8,707	–	8,707			8,707			8,707			8,707
Trade receivables	6,199	–	6,199			6,199			6,199			6,199
Prepayments, deposits and other receivables	47,521	3,879	51,400			51,400			51,400			51,400
Available-for-sales investments	–	–	–			–			–			–
Due from associates	–	–	–			–			–			–
Cash and cash equivalents	224,314	–	224,314			224,314			224,314			224,314
Total current assets	286,741	3,879	290,620			290,620			290,620			290,620

	The Group's audited consolidated statement of financial position as at 31 December 2009	The Oasis Group's audited combined statement of financial position as at 31 December 2009	Sub-total	Phase 1 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of financial position as at 31 December 2009 as if Phase 1 Acquisition was completed	Scenario 1 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of financial position as at 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was satisfied by cash in full	Scenario 2 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of financial position as at 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was partly satisfied by cash and partly satisfied by issue of shares
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Audited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
			(1)	*(Note a)*	*(Note b)*	*(2) = (1) + (a) +(b)*	*(Note c)*	*(Note d)*	*(3) = (2) + (c) +(d)*	*(Note e)*	*(Note f)*	*(4) = (2)+(e)+(f)*
CURRENT LIABILITIES												
Trade payables	5,700	–	5,700			5,700			5,700			5,700
Other payables and accruals	51,696	–	51,696		2,200	53,896		150	54,046		150	54,046
Interest-bearing bank borrowings, secured	–	–	–			–	195,000		195,000	97,500		97,500
Due to a shareholder of Oasis	–	4,913	4,913	(4,913)		–			–			–
Tax payable	319	–	319			319			319			319
Loan from immediate parent and ultimate controlling party	4,910	–	4,910			4,910			4,910			4,910
Total current liabilities	62,625	4,913	67,538			64,825			259,975			162,475
Net current assets / (liabilities)	224,116	(1,034)	223,082			225,795			30,645			128,145
Total assets less current liabilities	411,287	(1,034)	410,253			1,969,073			1,968,923			2,066,423
NON-CURRENT LIABILITIES												
Loan from immediate parent and ultimate controlling party	66,300	–	66,300			66,300			66,300			66,300

	The Group's audited consolidated statement of financial position as at 31 December 2009	The Oasis Group's audited combined statement of financial position as at 31 December 2009	Sub-total	Phase 1 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of financial position as at 31 December 2009 as if Phase 1 Acquisition was completed	Scenario 1 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of financial position as at 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was satisfied by cash in full	Scenario 2 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of financial position as at 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was partly satisfied by cash and partly satisfied by issue of shares
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Audited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
			(1)	*(Note a)*	*(Note b)*	*(2) = (1) + (a) +(b)*	*(Note c)*	*(Note d)*	*(3) = (2) + (c) +(d)*	*(Note e)*	*(Note f)*	*(4) = (2)+(e)+(f)*
Total non-current liabilities	66,300	–	66,300			66,300			66,300			66,300
Net assets/(liabilities)	344,987	(1,034)	343,953			1,902,773			1,902,623			2,000,123
EQUITY/(DEFICIENCY IN ASSETS)												
Total equity / (deficiency in assets) attributable to equity holders of the Company	328,828	(1,034)	327,794	1,169,978 390,000 1,042	(2,200)	1,886,614		(150)	1,886,464	97,500	(150)	1,983,964
Minority interests	16,159	–	16,159			16,159			16,159			16,159
TOTAL EQUITY / (TOTAL DEFICIENCY IN ASSET)	344,987	(1,034)	343,953			1,902,773			1,902,623			2,000,123

(iii) Unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2009

	The Group's audited consolidated statement of cash flows for the year ended 31 December 2009	The Oasis Group's audited combined statement of cash flows for the period from 29 September 2009 to 31 December 2009	Sub-total	Phase 1 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 1 Acquisition was completed	Scenario 1 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was satisfied by cash in full	Scenario 2 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was partly satisfied by cash and partly satisfied by issue of shares
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Audited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
			(1)	*(Note a)*	*(Note b)*	*(2) = (1) + (a) +(b)*	*(Note c)*	*(Note d)*	*(3) = (2) + (c) +(d)*	*(Note e)*	*(Note f)*	*(4) = (2)+(e)+(f)*
Cash flows from operating activities												
Loss before tax	(967,643)	(1,042)	(968,685)		(2,200)	(970,885)		(150)	(971,035)	–	(150)	(971,035)
Adjustments for:												
Finance costs	5,597	–	5,597			5,597			5,597			5,597
Gain on disposal of subsidiaries	(20,270)	–	(20,270)			(20,270)			(20,270)			(20,270)
Share of losses of associate	548	–	548			548			548			548
Interest income	(12)	–	(12)			(12)			(12)			(12)
Depreciation of property, plant and equipment	9,160	–	9,160			9,160			9,160			9,160
Amortisation of prepaid land lease payment	459	–	459			459			459			459
Impairment loss on available-for-sales investments	922,318	–	922,318			922,318			922,318			922,318
Write off of other receivables	955	–	955			955			955			955
Write-off of property, plant and equipment	5	–	5			5			5			5

	The Group's audited consolidated statement of cash flows for the year ended 31 December 2009	The Oasis Group's audited combined statement of cash flows for the period from 29 September 2009 to 31 December 2009	Sub-total	Phase 1 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 1 Acquisition was completed	Scenario 1 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was satisfied by cash in full	Scenario 2 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was partly satisfied by cash and partly satisfied by issue of shares
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Audited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
			(1)	*(Note a)*	*(Note b)*	*(2) = (1) + (a) +(b)*	*(Note c)*	*(Note d)*	*(3) = (2) + (c) +(d)*	*(Note e)*	*(Note f)*	*(4) = (2)+(e)+(f)*
Equity-settled share option expenses	6,727	–	6,727			6,727			6,727			6,727
	(42,156)	(1,042)	(43,198)			(45,398)			(45,548)			(45,548)
Decrease in inventories	376	–	376			376			376			376
Increase in trade receivables	(3,417)	–	(3,417)			(3,417)			(3,417)			(3,417)
Increase in prepayments, deposits and other receivables	(43,625)	(3,879)	(47,504)			(47,504)			(47,504)			(47,504)
Increase in trade payables	861	–	861			861			861			861
Increase in other payables and accruals	8,492	–	8,492		2,200	10,692		150	10,842		150	10,842
Cash used in operations	(79,469)	(4,921)	(84,390)			(84,390)			(84,390)			(84,390)
Income tax paid	–	–	–			–			–			–
Net cash flows used in operating activities	(79,469)	(4,921)	(84,390)			(84,390)			(84,390)			(84,390)
Cash flows from investing activities												
Interest received	12	–	12			12			12			12
Purchases of items of property, plant and equipment	(4,673)	–	(4,673)			(4,673)			(4,673)			(4,673)

	The Group's audited consolidated statement of cash flows for the year ended 31 December 2009	The Oasis Group's audited combined statement of cash flows for the period from 29 September 2009 to 31 December 2009	Sub-total	Phase 1 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 1 Acquisition was completed	Scenario 1 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was satisfied by cash in full	Scenario 2 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was partly satisfied by cash and partly satisfied by issue of shares
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Audited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
			(1)	*(Note a)*	*(Note b)*	*(2) = (1) + (a) +(b)*	*(Note c)*	*(Note d)*	*(3) = (2) + (c) +(d)*	*(Note e)*	*(Note f)*	*(4) = (2)+(e)+(f)*
Purchases of intangible assets	–	–	–	(390,000)		(390,000)	(195,000)		(585,000)	(97,500)		(487,500)
Net cash and cash equivalent inflow from acquisition of subsidiaries	9	–	9			9			9			9
Net cash and cash equivalent inflow from disposal of subsidiaries	54,987	–	54,987			54,987			54,987			54,987
Advances to associate	(275)	–	(275)			(275)			(275)			(275)
Net cash flows from/(used in) investing activities	50,060	–	50,060			(339,940)			(534,940)			(437,440)
Cash flows from financing activities												
Proceeds from issue of shares	167,464	–	167,464			167,464			167,464			167,464
Cash advances from a shareholder of Oasis	–	4,921#	4,921			4,921			4,921			4,921
Repayment of bank loan	(7,100)	–	(7,100)			(7,100)			(7,100)			(7,100)
Net proceeds from the exercise of the share options	4,928	–	4,928			4,928			4,928			4,928
Contribution from minority shareholders	7,000	–	7,000			7,000			7,000			7,000
Advance from immediate parent and ultimate controlling party	71,210	–	71,210			71,210			71,210			71,210
Interest paid	(5,597)	–	(5,597)			(5,597)			(5,597)			(5,597)

	The Group's audited consolidated statement of cash flows for the year ended 31 December 2009	The Oasis Group's audited combined statement of cash flows for the period from 29 September 2009 to 31 December 2009	Sub-total	Phase 1 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 1 Acquisition was completed	Scenario 1 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was satisfied by cash in full	Scenario 2 Phase 2 Pro forma adjustments		The Enlarged Group's unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2009 as if Phase 2 Acquisition was completed and the consideration was partly satisfied by cash and partly satisfied by issue of shares
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	*Audited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
			(1)	*(Note a)*	*(Note b)*	*(2) = (1) + (a) +(b)*	*(Note c)*	*(Note d)*	*(3) = (2) + (c) +(d)*	*(Note e)*	*(Note f)*	*(4) = (2)+(e)+(f)*
Net cash flows from financing activities	237,905	4,921	242,826			242,826			242,826			242,826
Net increase/(decrease) in cash and cash equivalents	208,496	–	208,496			(181,504)			(376,504)			(279,004)
Cash and cash equivalents at beginning of year/period	15,787	–	15,787			15,787			15,787			15,787
Effect of foreign exchange rate changes, net	31	–	31			31			31			31
Cash and cash equivalents at end of year/period	224,314	–	224,314			(165,686)			(360,686)			(263,186)
Analysis of balances of cash and cash equivalents:												
Cash and bank balances	224,314	–	224,314			224,314			224,314			224,314
Short-term borrowings	–	–	–	(390,000)		(390,000)	(195,000)		(585,000)	(97,500)		(487,500)
	224,314	–	224,314			(165,686)			(360,686)			(263,186)

 # – This included the amount of paid up capital of HK$7,800 amounted to be issued and paid up as at 31 December 2009.

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) The Phase 1 Consideration of US$200 million (equivalent to approximately HK$1,560 million) for the acquisition of Oasis and the Sales Loan is to be satisfied by (i) as to US$50 million (equivalent to approximately HK$390 million) by cash; and (ii) as to US$150 million (equivalent to approximately HK$1,170 million) by the issue of up to 847,810,000 consideration shares in the Company at a price (the "Price") of HK$1.38 per Share. As a condition to the payment of the Phase 1 Consideration, the Vendors will transfer to the Oasis Group the 70% Ownership Interest. The adjustment reflects the settlement of the Phase 1 Consideration and the injection of the 70% Ownership Interest assuming the completion of Phase 1 of the Acquisition had taken place on 31 December 2009, as follows:

	HK$'000
Assets acquired in Phase 1 Acquisition:	
Net liabilities of the Oasis Group as at 31 December 2009	(1,042)
Add: Due to a shareholder of the Oasis Group (the "Sales loan")	4,913
	3,871
The 70% Ownership Interest transferred from the Vendors	1,556,107
Aggregate value of assets acquired	1,559,978
Phase 1 Consideration of the Acquisition satisfied:	
By the issue of the consideration Shares:	
Issued share capital	84,781
Share premium	1,085,197
	1,169,978
By cash (through proceeds from the issue of new shares)	390,000
	1,559,978

For the purpose of the unaudited pro forma statement of cash flows, the proceeds arising from the issue of new shares of HK$390,000,000 have been assumed to be applied wholly for the partial settlement of the acquisition of the 70% Ownership Interest.

(b) The adjustment reflects the estimated legal and professional fees and other direct expenses in relation to the Phase 1 Acquisition assuming the completion of the Phase 1 Acquisition had taken place on 1 January 2009 for the unaudited pro forma consolidated statements of comprehensive income and cash flows or on 31 December 2009 for the unaudited pro forma consolidated statement of financial position.

Scenario 1

(c) The adjustment reflects the Phase 2 Consideration and the injection of the remaining 30% Ownership Interest assuming the Phase 2 Consideration is to be satisfied by cash in full and the completion of Phase 2 of the Acquisition had taken place on 31 December 2009 as follows:

	HK$'000
Asset acquired in Phase 2 Acquisition:	
The remaining 30% Ownership Interest transferred from the Vendors	195,000
Phase 2 Consideration of the Acquisition satisfied:	
By cash	195,000

(d) The adjustment reflects the estimated legal and professional fees and other direct expenses in relation to the Phase 2 Acquisition assuming the completion of the Phase 2 Acquisition had taken place on 1 January 2009 for the unaudited pro forma consolidated statements of comprehensive income and cash flows or on 31 December 2009 for the unaudited pro forma consolidated statement of financial position.

Scenario 2

(e) The adjustment reflects the Phase 2 Consideration and the injection of the remaining 30% Ownership Interest assuming the Phase 2 Consideration is to be satisfied by (i) as to US$12.5 million (equivalent to approximately HK$97.5 million) paid by cash and (ii) the remaining balance of US$12.5 million (equivalent to approximately HK$97.5 million) by the issue of 70,650,000 consideration shares in the Company at HK$1.38 per Share and the completion of Phase 2 of the Acquisition had taken place on 31 December 2009 as follows:

	HK$'000
Asset acquired in Phase 2 Acquisition:	
The remaining 30% Ownership Interest transferred from the Vendors	195,000
Phase 2 Consideration of the Acquisition satisfied:	
By consideration Shares:	
Issued share capital	7,065
Share premium	90,435
	97,500
By cash	97,500
	195,000

(f) The adjustment reflects the estimated legal and professional fees and other direct expenses in relation to the Phase 2 Acquisition assuming the completion of the Phase 2 Acquisition had taken place on 1 January 2009 for the unaudited pro forma consolidated statements of comprehensive income and cash flows or on 31 December 2009 for the unaudited pro forma consolidated statement of financial position.

The following is the management discussion and analysis on the Group extracted from the annual reports of the Company for the three periods/years ended 31 December 2009:

FOR THE YEAR ENDED 31 MARCH 2007

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 March 2007 (the "Year"), the Group recorded a consolidated turnover of HK$65,344,000 (2006 (restated): HK$75,157,000), representing a decrease of approximately 13% over the last year. The share of loss from associated companies for the year was HK$1,201,000 (2006: Nil). Basic loss per share was 20 HK cents as compared to the loss per share of 78 HK cents for the previous year.

Business Review

Turnover of Guangzhou Pearl Oriental Logistics Limited decreased by approximately 25% over the previous year due to the company's focused investment in the expansion of the innovative, potential e-commerce logistics, while the warehouse operation of Pearl Oriental Logistics (Shenzhen) Ltd. grew by approximately 28%. However, the gross profit margin has remained at around 22% during the Year (2006: 23%).

Liquidity, financial resources and capital structure

The Group generally finances its operations with internally generated resources and loan facilities granted by principal bankers in the PRC and Hong Kong, and from Orient Day Developments Limited ("Orient Day").

Mr. Wong Kwan became the new controlling shareholder of the Company on 24 May 2006. As a result, the financial positions of the Group have been improved substantially and become solid and strong during the year. As at 31 March 2007, the Group's gearing ratio had decreased to 11% (calculated on the basis of the Group's bank borrowings over total assets) from 57% as at 31 March 2006. At the year end date, the Group's total bank borrowings amounted to HK$58 million, which was secured by certain properties of the Group located in the PRC. The Group has adopted a conservative approach to financial risk management with limited borrowing during the Year.

Furthermore, the Group's cash and bank balances as at 31 March 2007 have increased from HK$1,785,000 as at 31 March 2006 to approximately HK$11,184,000. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has remained at a level of 0.28 as at 31 March 2007 (31 March 2006: 0.30).

During the Year, the Group conducted its business transactions principally in Renminbi, Hong Kong dollars, or in the local currencies of the operating subsidiaries. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, the Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

Employees and remuneration policies

As at 31 March 2007, the number of employees of the Group was about 270. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and traveling allowances and discretionary bonuses.

Capital commitment

The capital commitment of the Group amounted to approximately HK$1,012,000 as at 31 March 2007.

Treasury policies

The Group had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the year ended 31 March 2007.

Charge of assets

Save as aforesaid, the Group had not pledged any asset for the year ended 31 March 2007.

Contingent liabilities

The Group had no contingent liabilities as at 31 March 2007.

PROSPECTS

Energy and Natural Resources Sectors

To further increase the shareholders' value in the Company, the Company has been exploring new business opportunities for the Group actively. In view of the limited supply but ever increasing demand for energy and natural resources, the Management will correspondingly formulate prompt and appropriate operation and investment strategies to capitalize any business opportunities arisen and to timely expand into the new energy and resources businesses with high potential growth. The Management is also of the opinion that diversification of the Group's business into the coal mining and related resources businesses can provide additional dividend revenue to the Group and reduce the Group's business risk.

The Management believes that China's economic development will expand continuously within the next 10 years thus there will be a strong increasing demand for energy and natural resources, providing a great opportunity for the Company to achieve fast-growing development. Given the broad social network resources of the new Board of Directors formed in June 2006, and the Management Team's extensive experience and ability in business development, the Management strongly believes that the Company will, while retaining the logistics business which has collaborative and synergy effect, strengthen its energy and natural resources businesses and bring very good investment return to the shareholders.

COAL INDUSTRY

The Group has actively expanded its business in the energy and natural resources, in October 2006, the Company has successfully completed the acquisition of 40% equity interests of a coal mining company, Shanxi Taiyuan Sanxing Coal Gasification (Group) Company Limited at a consideration of HK$400 million, through China Coal Energy Holdings Limited ("CCEH").

Demands for Coal in China

In a recent National Development and Reform Commission's release of statistics of the Coal Industry of China on 28 May 2007, China has emerged as a net coal importing country instead of a net coal exporting country for the first time in history.

China economic growth in recent years has led to a surge in the demand for energy. China's real GDP grew at a Compound Annual Growth Rate ("CAGR") of 9.8% from 2001 to 2005 according to a report by the PRC's Statistics Bureau in February 2006. Coal accounts for almost 70% of the total natural energy consumption of China. In the same period, China's total primary energy consumption grew at a CAGR of 11.7%. Coal consumption in China amounted to 2.14 billion tons in 2005. The PRC Government estimates that the domestic demand for coal will increase to 2.5 billion tons by 2010.

CCEH's coke products include mainly metallurgical coke. They process coking coal into coke in CCEH's coking plant pursuant to specifications given by its customers. CCEH also purchases and resells coke in the domestic market. In addition, CCEH produces coal-based chemicals in its coking plant and ancillary facilities. CCEH's main chemicals products include coal gas, refined tar, benzene. All the coal gas CCEH produced will be supplied to Taiyuan City under a coal gas supply agreement.

On 8 September 2006, the Company, Sinosteel International Holding Co., Limited ("Sinosteel International") and Taiyuan Sanxing entered into a Strategic Partnership Framework Agreement. Sinosteel International is willing to purchase most of the coking coal, coke and related chemical products of Taiyuan Sanxing. The parties' preliminary plan of the total sale of each of coking coal and coke by Taiyuan Sanxing to Sinosteel International will be 200,000 tons for the year 2007, and will be gradually increased after the production volume of the new coal mine reached an optimal level.

Sinosteel International, a window company in Hong Kong, is a wholly owned subsidiary of Sinosteel Corporation, a Central state owned enterprise, and engaged in international trade, mining of metallurgical resources and investments. The total turnover of Sinosteel Corporation in 2005 is over RMB35 billion and that of Sino International is over RMB6 billion respectively. Sinosteel Corporation is one of the largest trading companies and exporters of coking coal and coke in China.

On 29 December 2006, CCEH entered into an agreement with Shanxi Coal Import and Export Group Luliang Corporation and other two joint venture partners to acquire 60% equity interest of Shanxi Jiao Cheng Shen Yu Coal Mine Company Limited ("Shen Yu Coal") at a consideration of HK$42 million. After the shareholding restructuring, Shen Yu Coal holds 100% coal mining equity interests of Bei Ta Coal Mine, Nan Ta Gou Coal Mine and Zhai Hao Bo Coal Mine in Jiao Cheng County of Shanxi Province. After reorganizing, the area of the coal mining is 4.35 square kilometers. It is now exploiting the second and third strata of the coal mine. The coking coal reserves is 18.79 million tons and the exploitable reserve is 9.33 million tons, with the annual production of 300,000 tons. The expected sales amount is HK$90 million per annum with the gross profit of HK$50 million. Upon completion, Shanxi Coal Import and Export Group Luliang Corporation will retain 10.4% equity interest and continue to cooperate with China Coal to complement the advantages of each other.

The coal mine of Shen Yu Coal has expansion potential. The new management is planning to exploit the fourth, fifth and sixth strata and together with the second and third strata, the anticipated exploitable reserve will be increased to 25 million tons with a mining value of HK$7.5 billion.

PLASTIC RECYCLING INDUSTRY

The Group has also spent HK$50 million to acquire 50% equity interests in and has become the single largest shareholder of Euro Resources China Limited during the Year. This plastic resources recycling project has great development potential and also its products have huge demand in the PRC market and the management will also explore opportunities of expanding its market for plastic to other South East Asian countries like Vietnam, Cambodia, etc.

China's Demand for waste Plastic Raw Material

Plastics as raw materials have been increasingly used in today's industry as an ideal substitute to replace other materials such as iron, wood and paper. In 2000, China alone produced 13 million tons of plastics products; in 2005, 32 million tons, representing an annual growth rate of 13%. The demand for plastics packaging materials reached 5 million tons in 2005. Increasing use of plastics has caused serious environmental problems. Recycling has become the most recognized solution. The demand for the recycled waste plastic materials in the Guangdong and Southern China district is over 1,000,000 tons per year.

China is the world's largest importer for waste and recycled plastics, with 18% of demands for polypropylene and 15% for polyethylene ("PE").

China is the world's largest market for PE film, a market greater in size than the USA or Western Europe as a whole. There are over 10,000 converters with an estimated capacity of more than 11 million tons in 2004.

It is expected that the coal mining project and plastic resources recycling project will bring long-term stable income to the Group.

Logistics Business

In order to increase the market share of the logistics business, the Company has entered into an agreement during the year to acquire a 60% equity interest of Pearl Oriental Logistics Sino Limited at a consideration of HK$22 million. We expect it will help the continual growth of the Group's logistics business.

Financial Positions of the Group

After Mr. Wong Kwan became the new controlling shareholder of the Company on 24 May 2006, the financial positions of the Group have been improved immediately. Apart from the proceeds of HK$80 million from the issue of new shares, an unsecured loan facility of HK$70 million has been granted by Mr. Wong Kwan to the Group as additional working capital which is beneficial to the Group's various investing and operating activities. As a whole, all of our major bankers, customers and business partners have great confidence in the Group's future development. Therefore, the Group will be in a better position to grasp various business and investment opportunities in the future.

As at 31 March 2007, the Group has outstanding short-term bank loans in aggregate of approximately HKD58,093,000 (2006: HKD88,880,000). The Group is currently in the process of negotiation with certain banks to grant new credit facilities to the Group sufficient to repay the existing loans. The directors do not anticipate any difficulties in obtaining the new banking facilities. In addition, the immediate holding company and the controlling shareholder of the Company has undertaken to provide such financial assistance as is necessary.

The Company will operate and invest bilaterally in energy and natural resources businesses as well as logistics businesses. As the energy and resources projects require more capital investment thus will account for as high as 70% of the total net assets of the Company.

The New Management has built brand new corporate culture of the Group that not only creates value for the shareholders, but also boosts the team spirit of the employees and is beneficial to the all round and balanced development of the Group.

FOR THE NINE-MONTH PERIOD ENDED 31 DECEMBER 2007

RESULTS AND REVIEW OF OPERATION

For the 9-month period ended 31 December 2007 (the "Period"), the Group recorded a consolidated turnover of HK$55,620,000 (31 March 2007: HK$65,344,000), implying an annualized increase of approximately 13.5%. The share of profit from associated companies for the period was HK$61,884,000 (31 March 2007: loss of HK$1,201,000). Basic earnings per share was 10 HK cents for the period ended 31 December 2007 as compared to the basic loss per share of 20 HK cents for the year ended 31 March 2007.

BUSINESS REVIEW

The financial status of the Group has further improved. The profit attributable to shareholders for the Period amounted to HK$38,422,000 (31 March 2007: Loss HK$53,278,000), turnaround from loss to profit. Such increases were mainly attributable to the share of profit from associates.

LOGISTICS

Logistics is still the major source of revenue for the Group. For the period ended 31 December 2007, Guangzhou Pearl Oriental Logistics Limited reallocated its resources on the high potential growth e-commerce logistics, while the warehouse operations of Pearl Oriental Logistics (Shenzhen) Ltd still have steady growth.

COAL INDUSTRY

The Group's share its associates, China Coal Energy Holdings Limited ("CCEH"), for the period ended 31 December 2007 was approximately HK$67 million.

On 9 November 2007, CCEH entered into an agreement with two independent partners to acquire 89.4% equity interest of Shanxi Qinhe Coal Company Limited ("Qinhe Coal") at a consideration of RMB142 million. After the shareholding restructuring, Qinhe Coal holds 100% coal mining equity interests of Qinhe Coal Mine in Shanxi Province. After reorganising, the area of the coal mining is

1.416 square kilometers. It will exploit the fourth, seventh and ninth strata of the coal mine. The coking coal reserve is 26.42 million tonnes and the exploitable reserve is 11.39 million tonnes, with the current annual production limit of 300,000 tonnes.

The Group believes that as the demand for coal will increase in foreseeable future, the contribution from CCEH will keep increasing.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with internally generated resources and loan facilities granted by principal bankers in the PRC and Hong Kong.

As at 31 December 2007, the Group's gearing ratio had decreased to 10% (calculated on the basis of the Group's bank borrowings over total assets) from 11% as at 31 March 2007. At the Period end date, the Group's total bank borrowings amounted to HK$64 million (31 March 2007: HK$58 million), which was secured by certain properties of the Group located in the PRC. The Group has adopted a conservative approach to financial risk management with limited borrowing during the Period.

Furthermore, the Group's cash and bank balances as at 31 December 2007 have increased to HK$31,617,000 from approximately HK$11,184,000 as at 31 March 2007. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 0.58 as at 31 December 2007 (31 March 2007: 0.28).

At 31 December 2007, the Group's bank loan facilities are subject to the fulfilment of covenants relating to certain capital requirements, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December and 31 March 2007, none of the covenants relating to drawn down facilities had been breached.

During the Period, the Group conducted its business transactions principally in Renminbi, Hong Kong dollars, or in the local currencies of the operating subsidiaries. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, the Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

Employees and remuneration policies

As at 31 December 2007, the number of employees of the Group was about 422. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and traveling allowances and discretionary bonuses.

Capital commitment

The capital commitment of the Group amounted to approximately HK$8,052,000 as at 31 December 2007.

Treasury policies

The Group had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the nine months ended 31 December 2007.

Charge of assets

Save as aforesaid, the Group had not pledged any asset for the nine months ended 31 December 2007.

Contingent liabilities

As at 31 December 2007, approximately HK$64 million (31 March 2007: HK$58 million) of guarantee was given by the Company to banks in respect of banking facilities granted to a subsidiary of the Company. The extent of such facilities utilized by the subsidiary at 31 December 2007 amounted to approximately HK$64 million (31 March 2007: HK$58 million).

PROSPECTS

Energy and Natural Resources Sectors

To further enhance the value in the Company, the Company has been actively exploring various new business opportunities for the Group. In view of the limited supply but ever increasing demand for energy and natural resources in China, the Management will continue to formulate prompt and appropriate operation and investment strategies to capitalize on any business opportunities and to timely expand into the new energy and resources business with high potential growth. Management is also of the opinion that diversification of the Group's business into the coal mining and related business can provide additional dividend revenue to the Group and reduce the Group's business risk.

Management believes that China's economic development will continuously expand within the next decade thus there will be a strong increasing demand for energy and other natural resources, providing a great opportunity for the Company to capitalize on them. Given the broad reach of the Board of Directors, and the Management Team's extensive experience and ability in business development, the Management strongly believes that the Company will, while retaining the logistics business which has collaborative and synergy effect, strengthen its energy and natural resources business and bring very good investment return to the shareholders.

COAL INDUSTRY

The Group has actively expanded its business in the energy and natural resources, in October 2006, the Company has successfully completed the acquisition of 40% equity interests of a coal mining company, Shanxi Taiyuan Sanxing Coal Gasification (Group) Company Limited at a consideration of HK$400 million, through China Coal Energy Holdings Limited ("CCEH"), an associate of the Company which has already made profit contribution to the Group during the Period. Subsequently, CCEH is in the process to acquire one to two more coking coal mines in Shanxi and there will be more acquisitions for CCEH.

DEMANDS FOR COAL IN CHINA

In a recent National Development and Reform Commission's release of statistics of the Coal Industry of China, China has become a net importer of coal which is expected on a sustained basis given the strong demand from the power and steel industries in China and the tighter regional supply of coal.

With China being the second largest consumer of energy in the world and with coal contributing over 60% of China's energy consumption, demand for coal in China is stronger than ever. China is the world's largest coal producer, and the majority of coal produced in China is derived from Shanxi, and in fact Shanxi is also the largest producer of raw coal and coking coal in China.

It is believed that coal producers in China are enjoying a confluence of positive factors that will result in strong growth in the next few years. We have witnessed a surge in coal prices during the Period, management of CCEH maintains its optimistic view on coal prices, especially for the coking coal. CCEH exploits and sells coking coal in the domestic market. CCEH's coke products include mainly metallurgical coke. They process coking coal into coke in CCEH's coking plant pursuant to specifications given by its customers.

Chinese coking coal prices increased significantly in the 2nd half of 2007 due to the strong demand from the steel industry. Representative prices in Shanxi province were up greater than 40% in the 2nd half of 2007.

In addition, CCEH produces diversified coal-based chemicals in its coking plant and ancillary facilities. CCEH's main chemical products include coal gas, refined tar and benzene. All the coal gas CCEH produced will be supplied to Shanxi Taiyuan City under a coal gas supply agreement.

CCEH owns a coke plant in Shanxi Taiyuan with a production capacity of 600,000 tonnes of coke per year and also 3 coal mines near Shanxi Taiyuan City which have coking coal reserves of around 67.5 million tonnes, 26 million tonnes and 19 million tonnes respectively, totalling over 110 million tonnes of coking coal. It is expected that the total annual coal production of these 3 coal mines of CCEH will be around 1.8 million tonnes in 2008.

Given the strategic importance of coal in its energy needs, the Chinese government has been keen to improve the industry structure so as to achieve more efficient and safe mining of the country's coal resources. The thrust of the government's policy direction has been towards 'bigger and stronger ' coal mining operations. As such, we believe the sizeable coal producers like CCEH are well-positioned to benefit from consolidation opportunities in the industry.

CCEH's customers are predominantly domestic coke plants and steel companies, which should continue to expand at a fast pace. Pricing for its product is determined through negotiations with customers, and recent settlements in the current coal markets show that customers are still willing to pay ever-higher prices to secure supplies.

Coal is one of the resources that China has abundantly, and given the strategic importance of this resource in China's energy mix, we see greater efforts by the Chinese government to improve the structure of the coal industry. Such moves, we expect, will benefit the sizeable coal producers, who can partake of opportunities to consolidate smaller players and improve their already-strong production profiles.

A combination of fast-rising demand, persisting supply deficit, severe bottle neck in transportation, control of coal export in China and less government interference in setting coal prices shall enable sizeable Chinese coal companies to achieve strong earnings growth over the next few years.

CCEH plans to become a leading non-State-Owned coking coal and coke producer in Shanxi of China. Its development strategies are to focus on growth in Shanxi Province by acquiring more resources and expand production capacity and to further improve its mining, coal processing and production efficiency.

PLASTIC RECYCLING INDUSTRY

The Group has 50% equity interests in Euro Resources China Limited ("ERC"). This plastic resources recycling project has great development potential and also its products have huge demand in the PRC market and the management will also explore opportunities of expanding its market for plastic to North America, other Asian Countries like Vietnam and Cambodia, Malaysia, Korea, Japan and etc.

The Group expected that ERC will have contribution from Year 2008 as another major source of income of the Group

CHINA'S DEMAND FOR WASTE PLASTIC RAW MATERIAL

Plastics as raw materials have been increasingly used in today's industry as an ideal substitute to replace other materials such as iron, wood and paper. In 2000, China alone produced 13 million tonnes of plastics products; in 2005, 32 million tonnes, representing an annual growth rate of 13%. The demand for plastics packaging materials reached 5 million tonnes in 2005. Increasing use of plastics has caused serious environmental problems. Recycling has become the most recognized solution. The demand for the recycled waste plastic materials in the Guangdong and Southern China district is over 1,000,000 tonnes per year.

China is the world's largest importer for waste and recycled plastics, consisting of 18% of demands for polypropylene and 15% for polyethylene ("PE").

China is the world's largest market for PE film, a market greater in size than the USA or Western Europe as a whole. There are over 10,000 converters with an estimated capacity of more than 11 million tonnes in 2004.

Apart from the recycling factory in France, the management of Euro Resources is in negotiation for acquisitions of few recycling factories and collection facilities in Europe like United Kingdom, Germany, Italy and etc. Furthermore, ERC has already formed a joint-venture in Shunde of Guangdong province, China to generate more profits and broaden the customer base in the manufacturing process of plastic granulation.

It is expected that the coal mining project and plastic resources recycling project will bring long-term stable income to the Group.

To expedite the appreciation of the Group's investment projects and generate overall benefits for our shareholders, the management team is planning to spin off the coal mining project for listing on recognized stock markets as soon as possible. The Board expects that CCEH, upon listing, will generate very satisfactory returns to the Group.

The Company will operate and invest bilaterally in energy and natural resources business as well as logistics business. As the energy and resources projects require more capital investment thus will account for as high as 70% of the total net assets of the Company.

FINANCIAL POSITIONS OF THE GROUP

After Mr. Wong Kwan became the new controlling shareholder of the Company on 24 May 2006, the financial positions of the Group have been improved immediately. Apart from the net proceeds of HK$77.46 million from the placing of new shares in the Company in March 2008, an unsecured loan facility of HK$70 million has been granted by Mr. Wong Kwan to the Group as additional working capital which is beneficial to the Group's various investing and operating activities. As a whole, all of our major bankers, customers and business partners have great confidence in the Group's future development. Therefore, the Group will be in a better position to grasp various business and investment opportunities in the future.

As at 31 December 2007, the Group has outstanding bank loans in aggregate of approximately HK$64 million (31 March 2007: HK$58 million).

FOR THE YEAR ENDED 31 DECEMBER 2008

For the year ended 31 December 2008 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated turnover of HK$78,783,000 (2007: HK$55,620,000), implying an annualized increase of approximately 6%. The share of loss from associated companies for the Year was HK$12,752,000 (2007: profit of HK$61,884,000). Basic loss per share was 8.5 HK cents for the Year as compared to the basic profit per share of 10 HK cents for the period ended 31 December 2007.

BUSINESS REVIEW

The global economic downturn has impacted the entire export and logistics industries substantially, and in turn, our business. The loss attributable to shareholders for the Year amounted to HK$38,310,000 (2007: profit of HK$38,422,000), such charges were due to mainly less contribution from associates. The gross profit margin has increased from 27.6% in 2007 to 35.1% during the Year.

LOGISTICS

Logistics is still the major source of revenue for the Group. For the year ended 31 December 2008, the warehouse operations of Pearl Oriental Logistics (Shenzhen) Limited still have steady growth. While Guangzhou Pearl Oriental Logistics Limited ("GZPO") has focused in the e-commerce logistics but suffered losses of which the Group has disposed subsequent to the year end date at a consideration of cash HK$3,000,000 together with convertible bonds of HK$9,000,000 (the "Convertible Bonds").

The board of Directors of the Company (the "Board") believes that it will be in the interest of the Group to concentrate its effort in the energy and natural resources sectors, and the further investment in GZPO will be very substantial before they can become profitable businesses. The Board also believes the Convertible Bonds may provide to the Group with an opportunity to share the capital gain (if any) should the business of GZPO can turnaround in the future. The disposal represented a good opportunity for the Group to realize GZPO and to strengthen the financial position of the Group.

PLASTIC RECYCLING INDUSTRY

The Group has increased its equity interests in Euro Resources China Limited ("Euro Resources") to 80% during the Year. This plastic resources recycling project has development potential and also its products have huge demand in the PRC market and the management will also explore opportunities of expanding its market for plastic to North America, other Asian Countries like Korea and etc. The Group expected that Euro Resources will have contribution from Year 2009 as another source of revenue of the Group.

Reference is made to the Company's circular dated 27 November 2008, Mr. Laurent Kim (a former director and the founder of Euro Resources) and Mr. Ung Phong have failed to honour and perform the profit guarantee of Euro 4 million per year for years 2007 to 2009 due to their own personal reasons, and the Group has no other choice but to dispose of Mr. Laurent Kim's 30% equity interest in Euro Resources which has been pledged to the Group as collateral for the performance of the Profit Guarantee by way of a private tender through an independent sale agent of the private tender appointed by the Group. As a result, a wholly owned subsidiary of the Group, has completed the acquisition of the 30% equity interest in Euro Resources through the private tender at a consideration of HK$9,800,000 (of which the Group needed not to settle by cash and has actually been set off against the profit guarantee from Mr. Laurent Kim).

During the Year, Euro Resources has already invested over HK$10,000,000 to acquire new machineries in order to improve its product quality and production capacity.

Despite the recent drops in demand and prices of waste materials as a result of the financial tsunami and sharp decrease in oil price, the Board is confident in the long term development potential of recycling business of waste plastic since the demand in the PRC for such recycled plastic raw material which can serve to reduce manufacturing costs will continue to be high in the long run, and therefore the Company is willing to increase its stake and gain the control in Euro Resources.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with internally generated resources and loan facilities granted by principal bankers in the PRC and Hong Kong. As at 31 December 2008, the Group's gearing ratio had decreased to 9% (calculated on the basis of the Group's bank borrowings over total assets) from 10% as at 31 December 2007. At the Year end date, the Group's total bank borrowings amounted to HK$60,000,000 (2007: HK$64,000,000), which was secured by certain properties of the Group located in the PRC and the trade receivables of a subsidiary. The Group has adopted a conservative approach to financial risk management with limited borrowing during the Year. Furthermore, the Group's cash and bank balances as at 31 December 2008 have decreased to HK$15,787,000 from HK$31,617,000 as at 31 December 2007. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 0.89 as at 31 December 2008 (2007: 0.58).

During the year, the Group's bank loan facilities are subject to the fulfilment of covenants relating to certain capital requirements, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2008 and 2007, none of the covenants relating to drawn down facilities had been breached.

During the Year, the Group conducted its business transactions principally in Renminbi, Euro and Hong Kong dollars, or in the local currencies of the operating subsidiaries. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

Employees and remuneration policies

As at 31 December 2008, the number of employees of the Group was about 950. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and traveling allowances and discretionary bonuses.

Capital commitment

The capital commitment of the Group amounted to approximately HK$8,461,000 as at 31 December 2008.

Treasury policies

The Group had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the year ended 31 December 2008.

Charge of assets

Save as aforesaid, the Group had not pledged any asset for the year ended 31 December 2008.

Contingent liabilities

As at 31 December 2008, the banking facilities granted to the a subsidiary subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$60,369,827.

FINANCIAL POSITIONS OF THE GROUP

As at 31 December 2008, the Group has outstanding bank loans in aggregate of approximately HK$60,000,000 (31 December 2007: HK$64,000,000).

FOR THE YEAR ENDED 31 DECEMBER 2009

For the year ended 31 December 2009 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated turnover of HK$195,530,000 (2008: HK$78,783,000), implying an increase of approximately 148%. The share of loss of associates for the Year was HK$548,000 (2008: HK$12,752,000). Basic loss per share was 87.6 HK cents for the Year as compared to the basic loss per share of 8.5 HK cents for the year ended 31 December 2008.

BUSINESS REVIEW

The substantial increase in the turnover was due to the formation of the joint venture company, China Environmental Resources Limited ("China Environmental"), which is 60% owned by the Group and its sales of plastic recycling materials accounted for over 80% of the Group's turnover during the Year, although the logistics business has decreased due to the Board's decision to disposing of the loss making business, Guangzhou Pearl Oriental Logistics Limited and the bonded warehouse in Shenzhen during the year 2009.

The global economic downturn has impacted the entire export and logistics industries substantially, and in turn, our business. The gross profit margin has decreased from approximately 35% in 2008 to 10.5% during the Year as the margin of trading of recycling material is generally lower than that of logistics service income.

PROSPECTS

Logistics

As previously announced by the Company, during the Year, the Group has disposed of a bonded warehouse property in Futian, Shenzhen, PRC (the "Warehouse") and the Group will concentrate on its core business in the energy and environmental recycling plastic resources sectors.

Following the completion of the disposal of the Warehouse, the logistics operations of the Group has substantially scaled down accordingly. As a result and as announced before, the Group will focus its effort on energy, natural resources and environmental plastic recycling businesses by utilizing the proceeds from the recent placing of Shares and the disposal of the Warehouse.

Coal Investment

In July 2009, the Company has completed the acquisition of additional 15.18% equity interest of China Coal Energy Holdings Limited ("China Coal"). Accordingly, the Group holds an aggregate 55.11% controlling shareholding of China Coal and it renders the Group at a better position.

PLASTIC RECYCLING INDUSTRY

The Company is optimistic on the potential development of the environmental plastic recycling business. In August 2009, the Company announced to invest at a total of HK$100 million to acquire IB Group's recycled plastic business with its 2008 annual turnover exceeding HK$500 million and 20% minority interests of Euro Resources China Limited ("Euro Resources"). The Group currently owns 60% equity interest of the restructured China Environmental. The Board anticipates that the plastic recycling business will make a significant contribution to the leap development of the Group in 2010.

After the completion of the acquisition and restructuring, China Environmental owns the entire equity interest of IB Environmental Plastic and Euro Resources.

The Board is pleased to point out that Mr. Cheung Mo Kit has founded the IB Group to operate the environmental plastic business for over 30 years, and has a large number of stable customers in China and has a good reputation in the market, and also has extensive supplier networks in Japan. The Company's plastic recycling business will have a greater development potential after the joining of Mr. Cheung Mo Kit and the management team led by him given their solid experience.

OUTLOOK

Utah Gas and Oil Field Project

Subsequent to the end of the reporting period, the Group has announced an acquisition of the Utah Gas and Oil Field project (the "Acquisition") for a consideration of up to US$225 million in January 2010.

Countries around the world are striving for reducing emissions and solving the problems of global warming. A number of international energy enterprises are increasing their investments actively in the green energy sector. Therefore, the exploring, mergers and acquisitions of natural gas has become a crowded situation. Experts forecasted the future demand for natural gas will increase and the market price will definitely rise steadily which is favourable for increasing the operating profit.

The Board believes that the Acquisition is a good opportunity for the Group to achieve good investment returns in the energy sector. Especially, as a result of the global financial tsunami, it is difficult for small non-listed gas and oil enterprises in United States to raise financing for their operations. In such situation, good opportunity for the Acquisition has therefore arisen.

Together with internal resources of the Company and upon the completion of the recent issues of new shares raised about HK$319 million in April 2010, the Company will have adequate funding to finance the consideration and the development costs for the Acquisition. In addition, as CFIUS has already granted approval for the Company's acquisition of ownership interest in the Utah Gas and Oil Field, the Company will complete the Acquisition soon after obtaining independent shareholders approval at a special general meeting of the Company to be held since most of the Conditions Precedent have been fulfilled.

The Board is pleased to be advised that, the rework of seven (7) existing wells of Utah Gas and Oil Field project has been started, and that of other seven (7) new wells are under planning. We expect that there will be the first gas production in sales within 3 months. The Board believes that the Utah Gas and Oil Field project will bring long-term, steady and desirable return on investment to the Group.

As the Group has effectively managed through the turbulent economic times and emerges as a more healthy company which is positioned to take advantage of growth in the energy and recycling sectors in the near future.

As disclosed before, Management has been making its best endeavour to protect and maximize the Group's interest in China Coal Group, including without limitation, by taking appropriate legal and other actions, and considering to dispose of its interest in China Coal Group if such terms of disposal are to the best interests of the Group and its shareholders as a whole.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with issue of news shares and convertible notes and internally generated resources. As at 31 December 2009, the Group has a net cash position while the Group's gearing ratio (calculated on the basis of the Group's bank borrowings over total assets) was 19% as at 31 December 2008. At the end of the reporting period, the Group did not have any outstanding bank borrowings (2008: HK$60,000,000), which was secured by certain properties of the Group located in the PRC and the trade receivables of a subsidiary. The Group has received proceeds of approximately HK$53 million from the disposal of the Warehouse, and the Group does not have any outstanding bank loan upon the completion. Furthermore, the Group's cash and bank balances as at 31 December 2009 have substantially increased to approximately HK$224 million from HK$15.8 million as at 31 December 2008 due to the placing of about 180 million new shares in December 2009. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 4.7 as at 31 December 2009 (2008: 0.89).

During the year, the Group's bank loan facilities were subject to the fulfilment of covenants relating to certain capital requirements, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2009, the banking facilities have been terminated following the disposal of the related subsidiaries.

During the year, the Group conducted its business transactions principally in Renminbi, Euro and Hong Kong dollars, or in the local currencies of the operating subsidiaries. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

LITIGATIONS

The litigations detailed in notes 22 and 41 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the number of employees of the Group was about 80 (2008: 950). The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and travelling allowances and discretionary bonuses.

FINANCIAL POSITIONS OF THE GROUP

As at 31 December 2009, the Group does not have any outstanding bank loans (31 December 2008: HK$60,000,000).

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

During the year, the Group has increased its interests in China Coal, Euro Resources, China Environmental.

CONTINGENT LIABILITIES

As at 31 December 2008, corporate guarantees were given to the banks by the Company for the banking facilities granted to the subsidiary of the Company, which were utilised to the extent of approximately HK$60,000,000. The relevant corporate guarantees were released upon the disposal of subsidiaries during the year ended 31 December 2009.

Details of the Group's litigation and the related contingent liabilities (if any) are set out in notes 22 and 41 to the financial statements.

CAPITAL COMMITMENTS

As at 31 December 2009, the Group had contracted but not provided for capital commitments for the proposed acquisition of a subsidiary and leasehold improvements of approximately HK$8,384,000.

ASSETS PLEDGED

As at 31 December 2009, no asset (31 December 2008: carrying value of approximately HK$106,237,000) was pledged with banks as security for loan facilities granted to the Group.

SHARE OPTION SCHEME

The Company has a share option scheme ("the Old Scheme") which was adopted on 21 June 2002 whereby, pursuant to a written resolution of the sole shareholder, was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 20 June 2012. Under the Old Scheme, the directors of the Company may grant options to eligible employees, including directors of any companies in the Group, to subscribe for shares in Company.

Reference is made to the Company's circular dated 21 October 2008 in relation to the cancellation of all the then outstanding share options granted but not exercised.

An ordinary resolution of the Company was passed on 15 July 2009 in respect of terminating the Old Scheme (such that no further options could be granted under the Old Scheme but in all other respects the provisions of the Old Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Old Scheme and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Old Scheme) and the adoption of New Share Option Scheme whose terms will comply with Chapter 17 and other relevant provisions of the Listing Rules and which became effect on 15 July 2009.

It is proposed that the Company shall adopt the New Share Option Scheme to provide the Eligible Persons a performance incentive for continued and improved service with the Company and its Subsidiaries and by enhancing such persons' contribution to increase profits by encouraging capital accumulation and share ownership.

FOR THE PERIOD ENDED 31 DECEMBER 2009

Results

For the period from 29 September 2009 to 31 December 2009, the Target Group recorded a turnover and net loss of nil and HK$1,042,341 respectively. The expenditure was mainly derived from legal and set up fees.

Business Review

The Target Group holds its investment in Shiny One during the period ended 31 December 2009.

Future Plans for Material Investments or Capital Assets

The Target Group plan to acquire the ownership interest in the Utah Gas and Oil field. Except the plan set out in the paragraph under "Future Development of the Utah Gas and Oil Field" in the letter from the board of this circular.

Capital Structure, Liquidity and Financial Resources

The Target Group's funding and treasury policies are established to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Target Group shall finance by its internal resources or possible fund raising activities.

As at 31 December 2009, the Target Group had no contingent liabilities, cash and bank balances, loans or borrowings except the shareholders' loan of approximately HK$4,913,000 as at 31 December 2009.

The Target Group conducted its business transactions principally in US dollars. The management of the Target Group considered that the Target Group had no significant exposure to foreign exchange fluctuations and did not use any financial instrument for hedging purposes.

As at 31 December 2009, no guarantee and pledge has been given by the Target Group.

Material Investments, Acquisitions or Disposals

The Target Group did not have any material investment, acquisition or disposal of subsidiaries during the period ended 31 December 2009.

Segmental Analysis

During the period under review, the Target Group mainly focused on its principal activity of investment holding.

Human Resources

As at 31 December 2009, the Target Group had no employees. For the period ended 31 December 2009, the total staff costs is nil.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 28 February 2010 of the properties held/rented by the Group.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

24 May 2010

The Directors
Pearl Oriental Innovation Limited
Suite 1908, 19th Floor
No. 9 Queen's Road Central
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to your instructions for us to value the properties held/rented by Pearl Oriental Innovation Limited (the "Company") and/or its subsidiaries (hereinafter referred to as the "Group") located in France and Hong Kong. We confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 28 February 2010 (the "date of valuation").

BASIS OF VALUATION

Our valuations of the properties have been based on the Market Value, which is defined as "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".

PROPERTY CATEGORISATIONS

In the course of our valuations, the valued properties are categorised into the following groups:

Group I – Property held by the Group for owner-occupation in France
Group II – Properties rented and occupied by the Group in Hong Kong

VALUATION METHODOLOGIES

In valuing Property No. 1, we have adopted the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement". This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of values for assets without a known used market. This opinion of value does not necessarily represent the amount that might be realized from the disposition of the subject asset in the open market and is subject to adequate profitability of the business compared to the value of the total assets employed.

We have attributed no commercial value to Property Nos. 2 and 3 which are rented by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

TITLE INVESTIGATION

We have been, in some instances, provided by the Group with copies of the title documents and tenancy agreements relating to the properties in Hong Kong and France. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the properties are sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no forced sale situation in any manner is assumed in our valuations.

VALUATION CONSIDERATIONS

We have inspected the properties externally and where possible, the interior of the properties. In the course of our inspections, we did not note any serious defects. However, no structural surveys have been made. We are, therefore, unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site/floor areas, completion dates of the buildings, identification of the properties and other relevant information.

Except otherwise stated, dimensions, measurements and site/floor areas included in the valuation certificates are based on information contained in the leases and other documents provided to us and are therefore only approximations.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your advice that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

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

REMARKS

We hereby certify that we neither have any present nor any prospective interest in the Group or the appraised properties or the values reported.

Unless otherwise stated, all monetary amounts stated herein are in Hong Kong Dollars (HK$). The exchange rate adopted is the average rate as at the date of valuation being HK$1 = Euro (€) 0.0925. There has been no significant fluctuation in the exchange rate between that date and the date of this report.

Our summary of values and the valuation certificates are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng
BSc, MUD, MBA (Finance), MSc (Eng), PhD (Econ), MHKIS, MCIArb, AFA, SIFM, FCIM, MASCE, MIET, MIEEE, MASME, MIIE
Managing Director

Joannau W. F. Chan
BSc, MSc, MRICS, MHKIS, RPS(GP)
Senior Director

Notes:

Dr. Tony C.H. Cheng is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 17 years' experience in valuations of properties in Hong Kong and France.

Ms. Joannau W.F. Chan is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 17 years' experience in valuations of properties in Hong Kong.

SUMMARY OF VALUES

Group I – Property held by the Group for owner-occupation in France

No.	Property	Market Value in existing state as at 28 February 2010 *HK$*	Interest attributable to the Group	Value attributable to the Group as at 28 February 2010 *HK$*
1.	An industrial complex, known as "Exploitations Ressources Internationales S.A." Zone du Sycala – Rte de St Cevet 46230 Fontanes France	40,600,000	60%	24,360,000
	Sub-total:	**40,600,000**		**24,360,000**

Group II – Properties rented and occupied by the Group in Hong Kong

No.	Property	Market Value in existing state as at 28 February 2010 *HK$*
2.	Nos. 1907-1908, 19th Floor, No. 9 Queen's Road Central, Hong Kong	No Commercial Value
3.	Room 2204-6, 22nd Floor, Park-In Commercial Centre, No. 56 Dundas Street, Kowloon, Hong Kong	No Commercial Value
	Sub-total:	**Nil**
	Total:	**40,600,000**

VALUATION CERTIFICATE

Group I – Property held by the Group for owner-occupation in France

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 28 February 2010 *HK$*
1.	An industrial complex, known as "Exploitations Ressources Internationales S.A." Zone du Sycala – Rte de St Cevet 46230 Fontanes France	The property comprises 3 land parcels with a total site area of approximately 3.744 hectares and two 2-storey factories, a sedimentation plant, a temporary office structure and a water pool erected thereon. The buildings were completed in various stages between 2003 and 2006. The total gross floor area ("GFA") of the buildings of the property is approximately 2,988 sq.m. According to a building permit dated 20 August 2001, Exploitation Ressources Internationales, S.A. ("ERI") was authorized to build a factory for waste and plastics production and various offices with a total surface area of 2,482 sq.m. The property title is freehold.	The property is occupied by the Group for waste and plastics production uses.	40,600,000 (60% interest attributable to the Group: HK$24,360,000)

Notes:

1. The registered owner of the property is ERI.

2. ERI is a 60%-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group II – Properties rented and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 28 February 2010 *HK$*
2.	Nos. 1907-1908, 19th Floor, No. 9 Queen's Road Central, Hong Kong	The property comprises 2 office units on the 19th floor of a 36-storey (plus a basement carpark) commercial building completed in 1991. The property has a total gross floor area of approximately 305.47 sq.m. (3,288.08 sq.ft.). The property is leased to Union Honour Investment Limited from an independent third party for a term of 2 years commencing on 1 December 2009 and expiring on 30 November 2011 at a monthly rent of HK$236,425 exclusive of rates, government rent, management fees and taxes.	The property is occupied by the Group for office purpose.	No Commercial Value

Notes:

1. Union Honour Investment Limited is an indirect wholly-owned subsidiary of the Company.

2. The registered owner of the property is Uniregent Investments Limited, an independent third party.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 28 February 2010 *HK$*
3.	Room 2204-6, 22nd Floor, Park-In Commercial Centre, No. 56 Dundas Street, Kowloon, Hong Kong	The property comprises an office unit on the 22nd floor of a 26-storey (plus 2 basement levels) commercial building completed in 1975. The property has a gross floor area of approximately 227.8 sq.m. (2,452 sq.ft.). The property is leased to IB Environmental Plastic Limited from an independent third party for a term of 3 years commencing on 14 December 2009 and expiring on 13 December 2012 at a monthly rent of HK$46,588 exclusive of rates, management fees and air-conditioning charges.	The property is occupied by the Group for office purpose.	No Commercial Value

Notes:

1. IB Environmental Plastic Limited is a 60%-owned subsidiary of the Company.

2. The registered owner of the property is Hang Lung Park-in Limited, an independent third party.

The following is the text of the letter from Veda Capital Limited, the Company's financial adviser and a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ascenda Cachet CPA Limited, in connection with the cash flow forecasts underlying the valuation of the Utah Gas and Oil Field in the Valuation Report prepared by BMI.

(A) LETTER FROM VEDA CAPITAL LIMITED

VEDA | CAPITAL
智 略 資 本

Veda Capital Limited
Suite 3214, 32/F
COSCO Tower
183 Queen's Road Central
Hong Kong

24 May 2010

The Board of Directors
Pearl Oriental Innovation Limited
Suite 1908, 19th Floor
9 Queen's Road Central
Hong Kong

Dear Sirs,

We refer to the discounted cash flow forecast ("**Forecast**") underlying the valuation prepared by BMI Appraisals Limited ("**BMI**") in relation to the appraisal of the valuation (the "**Valuation**") of the Utah Gas and Oil Field. The Valuation is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the Listing Rules and the Valuation is set out in Appendix IX to the circular of the Company dated 24 May 2010 (the "**Circular**"), of which this report forms part of. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

We are engaged to assist the Directors to comply with Rule 14.62 of the Listing Rules. Our work does not constitute any valuation of the Utah Gas and Oil Field. We have reviewed the forecasts upon which the Valuation has been made for which you as the Directors are solely responsible, and have discussed with you and BMI the information and documents provided by you which formed part of the basis and assumptions upon which the Forecast has been prepared. We have also considered the letter from Ascenda Cachet CPA Limited dated 24 May 2010 addressed to yourselves as set out in Section B of this Appendix to the Circular regarding the calculations and accounting policies upon which the Forecast has been made.

On the basis of the foregoing, we are of the opinion that the Forecast underlying the Valuation, for which you as the Directors are solely responsible, has been made after due and careful enquiry by you.

Yours faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong
Chairman

Julisa Fong
Managing Director

(B) REPORT FROM ASCENDA CACHET

Ascenda Cachet CPA Limited
天健德揚會計師事務所有限公司
13F Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong
香港 灣仔 告士打道 128 號 祥豐大廈 13 F 座

24 May 2010

The Board of Directors
Pearl Oriental Innovation Limited

Dear Sirs,

We refer to the valuation report dated 24 May 2010 (the "Valuation Report") prepared by BMI Appraisals Limited (the "Valuers") on the market value (the "Valuation") of the 100% interest in certain natural gas and oilfield properties (the "Utah Gas and Oil Field") located in the Areas in the Uinta Basin, Uintah County, Utah State, the United States of America as at the date of valuation on 28 February 2010.

The Valuation, including the bases and assumptions as set out in the Valuation Report, for which the directors of Pearl Oriental Innovation Limited (the "Company") and the Valuers are responsible, has been prepared by the valuation approach known as the discounted cash flow analysis. Pursuant to paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any valuation of assets (other than land and buildings) or businesses acquired by a listed issuer based on discounted cash flows or projections of profits, earnings or cash flows will be regarded as a profit forecast adopted for the purpose of preparing the Valuation. The profit projection of the Utah Gas and Oil Field for the 15 years ending 30 April 2025 (the "Profit Forecast") has been prepared by the directors of the Company using a set of assumptions that include hypothetical assumptions about future events and other assumptions that may or may not necessarily be expected to occur.

Even if the events anticipated under the hypothetical assumptions occur, actual results are still likely to be different from the Profit Forecast since the other anticipated events may or may not occur as expected.

Consequently, readers are cautioned that the Profit Forecast may not be appropriate for purposes other than for deriving the Valuation of the Utah Gas and Oil Field as at 28 February 2010.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" with reference to the procedures under Auditing Guideline 3.341 "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

Our work was performed solely to assist the directors of the Company to evaluate whether the Profit Forecast was complied properly so far as the accounting policies that have been used and the related calculations are concerned. We have reviewed the calculation of the Profit Forecast and reviewed and compared the accounting policies underlying the Profit Forecast with the accounting policies normally adopted by the Company and its subsidiaries (the "Group"). We reviewed and found that the accounting policies are consistent with those accounting policies normally adopted by the Group. Our work does not constitute any valuation of Utah Gas and Oil Field and we were unable to obtain sufficient appropriate evidence to evaluate or express any opinion on the appropriateness of the bases and assumptions made.

In our opinion, the Profit Forecast, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions adopted by the directors of the Company in preparing the Profit Forecast and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group.

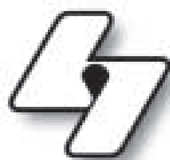
This letter is provided solely for your information. Therefore you cannot, without our prior written consent, refer to or use our name or the letter for any other purpose, refer to them in any documents, or make them available or communicate them to any other party, save as required by the regulatory authorities including but not limited to The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission from time to time. In performing our duties in the subject matter, subject to the industry standards of which we are a member, we accept no liability to any other party who is shown or gains access to this letter.

Yours faithfully

Ascenda Cachet CPA Limited
(Formerly Cachet Certified Public Accountants Limited)
Certified Public Accountants

Chan Yuk Tong
Practicing Certificate Number P03723

Hong Kong



HAAS PETROLEUM ENGINEERING
SERVICES, INC.

2100 ROSS AVENUE
SUITE 600
DALLAS, TEXAS 75201
PHONE (214) 754-7090
FAX (214) 754-7092

24 May, 2010

The Directors
Pearl Oriental Innovation Limited
Suite 1908, 19F
Nine Queen's Road Central
Hong Kong

Dear Sirs:

As requested, Haas Petroleum Engineering Services, Inc. (hereinafter referred to as "HPESI") has conducted an assessment of the unrisked probable and possible oil and gas reserve potential for the Wasatch, Mesaverde and Mancos reservoirs associated with certain Thurston Energy, LLC properties (hereinafter referred to as the "Thurston" project) located in the Uinta Basin, Utah, USA. The Thurston prospect acreage is on the east side of the Natural Buttes gas field in Township 9 South – Range 24 East, Uintah County, Utah, USA. The estimates of probable and possible reserves have been prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers. These definitions are presented immediately following this letter. Following the definitions is a list of abbreviations used in this report. This report includes economics prepared for the proposed 2010 Capital Budget for the properties, which includes remedial work on the existing seven wells and the drilling of seven wells. The accompanying "Summary Report of the Technical Advisor" presents a detailed summary of this assessment prepared in accordance with Chapter 18, Section 18.09(6) of the Listing Rules of the Stock Exchange of Hong Kong Limited.

The six leases associated with the properties are currently owned 100% by Thurston. Existing wells on the leases are currently shut-in due to a lack of capital to perform recommended remedial stimulation activity to add additional indicated productive intervals. Applications have been made to the BLM for permits to perform the remedial activities on the existing wells and for anticipated future drilling on the leases. These permits will extend the primary term of the leases for an additional two years. Following restoration of production, the leases be retained as long as there is production from at least one well on each lease.

The methodology for this review was to define a study area that included the wells in Township 9 South – Range 24 East and the west half of Township 9 South – Range 23 East. Geology and area logs were studied to develop an understanding reservoir quality, thickness, and aerial extent. Completion techniques were documented and studied. Halliburton's fracture stimulation and reserve model (SwiftLook Multi-Stage Gas Well Model) was reviewed. Production trends were analyzed to confirm the reserve model.

Oil and gas reserve potential for drilling locations on these leases have been determined by use of type curve and probabilistic analysis techniques. A type curve analysis incorporates production profiles from offset wells and adjusts the production to a common starting date to derive a "typical" production

profile. Probabilistic analysis was applied these offset wells to analyze maximum productions rates, by reservoir. These results were used to determine the reserve potential for the drilling locations. Reserve potential for the addition of indicated productive intervals in the seven existing wells was analyzed by the Halliburton SwiftLook Model. The production profile from the type curve was applied to these rates to determine reserve volumes.

There are a potential of 360 undeveloped drilling locations for these leases based on a ten acre spacing program, approved in 2009 by the State of Utah Board of Oil, Gas and Mining Commission.

RESERVE SUMMARY

The analysis was based on the proposed field development plan of 10 acre spacing. Thurston represents that the Dirty Devil project has 360 ten acre locations. The net probable and possible reserves for the Thurston project are estimated to be 1,857,600 barrels of condensate and 454,518,000 Mcf of gas. As of April 1, 2010, Thurston's net Reserves for one typical well location have been estimated to be as follows:

TABLE 1

	Net Reserve – As of 4/01/2010	
Reserve Class/Cat	**Oil & Condensate** *(bbl)*	**Natural Gas** *(Mcf)*
Probable (W-MV)	3,160	746,840
Possible (W-MV)	1,020	271,090
Possible (Mancos)	980	244,620
Total Possible	2,000	515,710
Grand Total	**5,160**	**1,262,550**

* Totals in Table 1 may not exactly match values in the attached cash flow summaries and tabular summaries due to computer rounding.

As of April 1, 2010, Thurston's Reserves for the 2010 Capital Budget plan have been estimated to be as follows:

PROBABLE RESERVES

Probable reserves are those reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. The probable reserves in this report are for estimated recoveries from recommended stimulation of additional indicated productive zones the existing wells.

HPESI estimates the probable reserves for these wells, as of April 1, 2010, to be:

	Gross Oil *(Mbbl)*	**Gross Gas** *(MMcf)*	**Net Oil** *(Mbbl)*	**Net Gas** *(MMcf)*
Probable Reserve Class	23.74	2,648.94	17.80	1,986.71

The probable reserves presented in this report are estimates only and should not be construed as being exact quantities. They may or may not be actually recovered; and, if recovered, the revenues therefrom and the actual costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the product prices and the costs incurred in recovering these reserves may vary from the price and cost assumptions in this report. In any case, quantities of probable reserves may increase or decrease as a result of future operations.

POSSIBLE RESERVES

Possible reserves are those reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable reserves. The possible reserves in this report are for estimated recoveries from the proposed seven new drilling locations.

HPESI estimates the possible reserves for these wells, as of April 1, 2010, to be:

	Gross Oil *(Mbbl)*	**Gross Gas** *(MMcf)*	**Net Oil** *(Mbbl)*	**Net Gas** *(MMcf)*
Possible Reserve Class	48.19	11,770.63	36.14	8,827.98

The possible reserves presented in this report are estimates only and should not be construed as being exact quantities. They may or may not be actually recovered; and, if recovered, the revenues therefrom and the actual costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the product prices and the costs incurred in recovering these reserves may vary from the price and cost assumptions in this report. In any case, quantities of possible reserves may increase or decrease as a result of future operations.

DISCUSSION

As shown in the Table of Contents, the Summary Report of the Technical Advisor addresses the requirements set forth within Section 18.09(6) of the Listing Rules of The Stock Exchange of Hong Kong Limited, and is organized to reflect the sequential order of the requirements stated therein.

All information pertaining to the operating expenses, prices, and the interests of Thurston in the properties appraised has been accepted as represented. It was not considered necessary to make a field examination of the appraised properties. Data used in performing this appraisal were obtained from Thurston, public sources, and our own files. Supporting work papers pertinent to the appraisal are retained in our files and are available for review.

HPESI is an independent consulting firm and does not own and has not owned any interests in the oil and gas properties covered by this report. Neither the employment of, nor the compensation received by, HPESI is contingent upon the values assigned to the properties covered by this report.

Respectfully submitted,
Haas Petroleum Engineering Services, Inc.
Texas Registered Engineering Firm F-0002950
Robert W. Haas, P.E.
President

Society of Petroleum Engineers
2007 Petroleum Resource Management System

RESOURCE CLASS DEFINITIONS AND GUIDELINES

Class	Definition	Guidelines
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.	Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.
Contingent Resources	Those quantities of petroleum estimated, as of 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.	Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.
Developed Reserves	Developed Reserves are expected quantities to be recovered from existing wells and facilities.	Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

Class	Definition	Guidelines
Developed Producing Reserves	Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.	Improved recovery reserves are considered producing only after the improved recovery project is in operation.
Developed Non-Producing Reserves	Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.	Shut-in Reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.
Undeveloped Reserves	Undeveloped Reserves are quantities expected to be recovered through future investments:	(1) from new wells on undrilled acreage in known accumulations, (2) from deepening existing wells to a different (but known) reservoir, (3) from infill wells that will increase recovery, or (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

RESERVE CATEGORY DEFINITIONS AND GUIDELINES

Category	Definition	Guidelines
Proved Reserves	Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.	If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data. In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see "2001 Supplemental Guidelines," Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that: 1) The locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. 2) Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations.

Category	Definition	Guidelines
		For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.
Probable Reserves	Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.	It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.
Possible Reserves	Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.	The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Category	Definition	Guidelines
		Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.
Probable and Possible Reserves	(See above for separate criteria for Probable Reserves and Possible Reserves.)	The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area.

Category	Definition	Guidelines
		Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

ABBREVIATIONS

AAPG	American Association of Petroleum Geologists
BBL	Barrels
BLM	Bureau of Land Management
BOPD	barrels of oil per day
BS&W	Basic Sediment & Water
BTU	British Thermal Unit
CIG	Colorado Interstate Gas
COPAS	Council of Petroleum Accountants Society
CPR	Competent Person Report
CUM	Cumulative
EUR	Estimated Ultimate Recovery
FMI	Formation Micro-Imager
FNI	Future Net Income
GOR	Gas-Oil Ratio
HPESI	Haas Petroleum Engineering Services, Inc.
IP	Initial Potential
IPO	Initial Public Offering
MBBL	thousands of barrels
MCF	thousands of cubic feet
MCFD	thousands of cubic feet per day
MMBBL	millions of barrels
MMCF	millions of cubic feet
NPV	Net Present Value
NYMEX	New York Mercantile Exchange
OGIP	Original Gas in Place
OOIP	original oil-in-place
Pearl	Pearl Oriental Innovation Limited
PRMS	Petroleum Resources Management System
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
Thurston	Thurston Energy, LLC
WPC	World Petroleum Council

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SUMMARY REPORT OF THE TECHNICAL ADVISOR
HAAS PETROLEUM ENGINEERING SERVICES, INC.
TO PEARL ORIENTAL INNOVATION LIMITED
FOR SUBMISSION TO THE STOCK EXCHANGE OF
HONG KONG LIMITED
AS OF APRIL 1, 2010
PREPARED FEBRUARY 3, 2010

This summary report has been prepared by Haas Petroleum Engineering Services, Inc. (HPESI) for Pearl Oriental Innovation Limited (Pearl), a company listed in Hong Kong with limited liability, in accordance with Chapter 18, Section 18.09(6) of the Listing Rules of The Stock Exchange of Hong Kong Limited. This report constitutes the "Summary Report of the Technical Advisor" regarding Pearl's interest in certain Thurston Energy, LLC properties (Thurston) located in the Uinta Basin, Utah, USA.

There are six leases associated with the properties that are currently owned 100% by Thurston. A total of seven wells have been drilled and produced on the properties since 1973. The existing wells on the leases are currently shut-in due to a lack of capital to perform recommended remedial stimulation activity to add additional indicated productive intervals. This report is an assessment of the oil and gas reserve potential for the Wasatch, Mesaverde and Mancos reservoirs on the leases.

The methodology for this study was to define a study area that included the wells in Township 9 South – Range 24 East and the west half of Township 9 South – Range 23 East. Geology and area logs were studied to develop an understanding reservoir quality, thickness, and aerial extent. Completion techniques were documented and studied. Halliburton's fracture stimulation and reserve model (SwiftLook Multi-Stage Gas Well Model) was reviewed. Production trends were analyzed to confirm the reserve model.

Probable and possible oil and gas reserve potential for existing wells and drilling locations on these leases have been determined by use of type curve and probabilistic analysis techniques. A type curve analysis incorporates production profiles from offset wells and adjusts the production to a common starting date to derive a "typical" production profile. Probabilistic analysis was applied these offset wells to analyze maximum productions rates, by reservoir. These results were used to determine the reserve potential for the drilling locations. Potential initial rates for the addition of indicated productive intervals in the seven existing wells was analyzed by the Halliburton SwiftLook Model. The production profile from the type curve was applied to these rates to determine reserve volumes.

The current development plan includes a total of 360 undeveloped drilling locations based on a ten acre spacing program, approved in 2009 by the State of Utah Board of Oil, Gas and Mining Commission.

We have estimated probable and possible reserves for the leases in Uinta County, Utah, in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers. Probable reserves are those reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. The estimate of probable reserves in

this report is for estimated recoveries from recommended stimulation of additional indicated productive zones the existing wells. Possible reserves are those reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable reserves. The estimate of possible reserves in this report is for estimated recoveries from the proposed seven new drilling locations.

The following summarizes our technical assessment of the non-producing and undeveloped reserves attributable to Pearl's interest in the Thurston properties and is organized based on Section 18.09(6) of the Hong Kong Listing Rules. After each subject heading is a number corresponding to the subsection of the Listing Rules being addressed, along with excerpted text from the various requirements.

PROFESSIONAL QUALIFICATIONS OF TECHNICAL ADVISOR(S) – 18.09(6)

Name, address, professional qualifications, and relevant experience of the Technical Advisor(s).

HPESI was founded in 1980 and incorporated in 1982. HPESI performs consulting petroleum services under the Texas Board of Professional Engineers Registration F-0002950. HPESI has provided services and expertise to hundreds of clients engaged in various aspects of the petroleum industry. The firm has highly experienced professionals and support staff who have conducted reserves evaluations in various countries of the world and in most of the producing areas of the United States. Our present organization consists of 9 reservoir engineers, 3 associate reservoir engineers and 2 geoscientists. Our evaluations and expert testimony have been accepted by major producing companies, independent operators, banks and other financial institutions, pipeline companies, state and national regulatory bodies, trustees, attorneys, courts of law, arbitrators and investors as the basis for reserves disclosures and decisions regarding such matters as project financing, unitizations, equity re-determination, acquisitions, divestitures, public offerings of equity or debt instruments, development programs, enhanced recovery projects, facilities commitments, negotiated settlements, cooperative agreements, leasing, bidding, bankruptcies and lawsuits.

The engineering work for this report was supervised by Robert W. Haas, who is professionally qualified and a licensed Professional Engineer in the State of Texas (License No. 46771) since February 1980 with more than 35 years of relevant experience in the estimations, assessment and evaluation of oil and gas reserves. Over several years, he has conducted reserve evaluations in this field for a major insurance company, an international oil and gas company and Thurston Energy, LLC.

HPESI is an independent consulting firm and does not own and has not owned any interests in the oil properties covered by this report. No employee, officer, or director of HPESI is an employee, officer, or director of Pearl. Neither the employment of, nor the compensation received by, HPESI is contingent upon the values assigned to the properties covered by this report.

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STAGE OF DEVELOPMENT AND SUMMARY OF PAST OPERATIONS – 18.09(6)(A)

The number of holes drilled and their distribution.

A total of seven wells have been drilled and completed on the acreage since 1973. These are currently shut-in due to a lack of capital for remedial work.

SUMMARY OF TARGET RESERVOIRS AND THEIR RESERVOIR PARAMETERS) – 18.09(6)(B)

Statement describing the geological characteristics of the occurrence, the type of deposit, its dimensions and the grade of the mineral; for fluid and/or gaseous deposits, the porosity and permeability characteristics of the reservoirs, the thickness of the net pay, the pressure of the fluid or gas within it and the recovery mechanism planned.

The Mesaverda groups in the Uinta basin accompanied by the Mancos Shale are the results of deposited material in what use to be a large seaway in the Cretaceous Era. Halliburton cites the Mancos Shale as "the single most significant shale in the western U.S."[1] As Figure 1 shows, the Uinta basin itself stretches throughout most of the northeastern parts of Utah. The Mesaverde group, which lies directly below the Green River and Wasatch formations, is a system of tight gas sandstones atop the Mancos Shale. The group extends from Utah through most of Colorado. Figure 2 represents a portion of an extensive cross section from the United States Geological Survey (USGS). It accurately displays the breadth and thickness of the Mesaverde tight gas sandstone and Mancos shale.

1 http://www.halliburton.com/public/solutions/contents/Shale/related_docs/Mancos.pdf

Figure 1 Courtesy of the Utah Geologic Survey

FIGURE 1

FIGURE 2

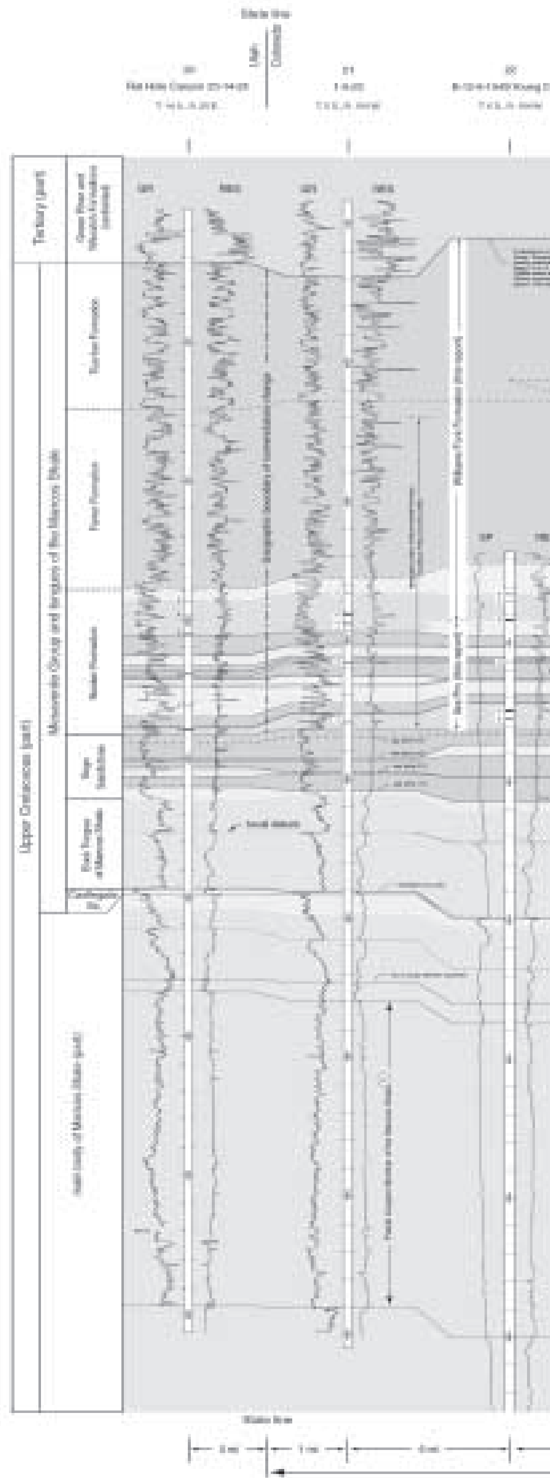


Figure 2: Courtesy of the United States Geological Survey

Reference Item 1 listed under section 18.09(6)(E), provides an excellent description of the reservoir characteristics for the Upper Cretaceous Mancos and Mesaverde formations. Questar, Kerr McGee and EOG Resources provided 10 Formation Micro-imager logs (hereinafter referred to as "FMI"[3] logs) for the Utah Geological Study research. These logs were in the area of T9S, R23E, Uintah County, Utah. Figure 3 provides an overview of some of the facts presented in this study by zone.

FIGURE 3

Thurston Energy, LLC Project Unitah County, Utah				
Zone	**Thickness (Feet)**	**Lithology**	**Rock Properties**	**Comments:**
Upper Mesaverde	450 - 550	5 to 7 Braided Streams 15-50' thick. 2 to 3		
Middle Mesaverde (U. Fluvial)	500 - 600	5 to 12 Flood Plain Shales - Sparse Blocky Sandstones	k = .0485 md 3 - 14' Thick 99 - 815 foot wide Channels ø = 14 R_t = 10 Ω wet No X over ø = 10% R_t = 40 Ω	Fractures are generally oriented N 80° W dipping at 70°. Gas entered the wellbores irregularly and "regurgitated gas" was documented.
Middle Mesaverde (Braided St)	300	Thick Blocky Sandstones - Braided Streams		
Middle Mesaverde (L. Fluvial)	140	2 - 5 Fining Upward Fluvials		
Lower Mesaverde (U. Coral)	350	10 - 20 Coalbeds 1' to 4' thick	ø = (8 - 10%) 15% max	
Lower Mesaverde (Nelson)	300	4 - 10 Fluvial and Channel Sandstones less than 15'	ø = 10% R_t = 30 Ω ø = 6 - 11%	
Lower Mesaverde (Nelson)	100	Coal Bearing Shales	ø <= 13% vs Core 9.1% 0.0137 md	
Lower Mesaverde (U. Sego)	50 - 80	Lagoonal washover Sandstones		
Lower Mesaverde (Blockey Sego)	60 - 90	Shoreline Sandstones (wet)	10% ø K = .1 md	
Lower Mesaverde (Black Tongue Shale)	10 - 60	Shale	Low resistance - Poor TOC and Thermal Mat.	
Lower Mesaverde (Castlegate)	100	Shallow Marine & Braided Streams (wet)		
Mancos (Blackhawk)			ø = 5 - 10% R_t = 50 Ω X over	Naturally fractured.
Mancos (Mancos)		Gray to Black Shale		
Mancos (Mancos) B		Thin Very Fine Sandstones encased in Shale (turbidities)		

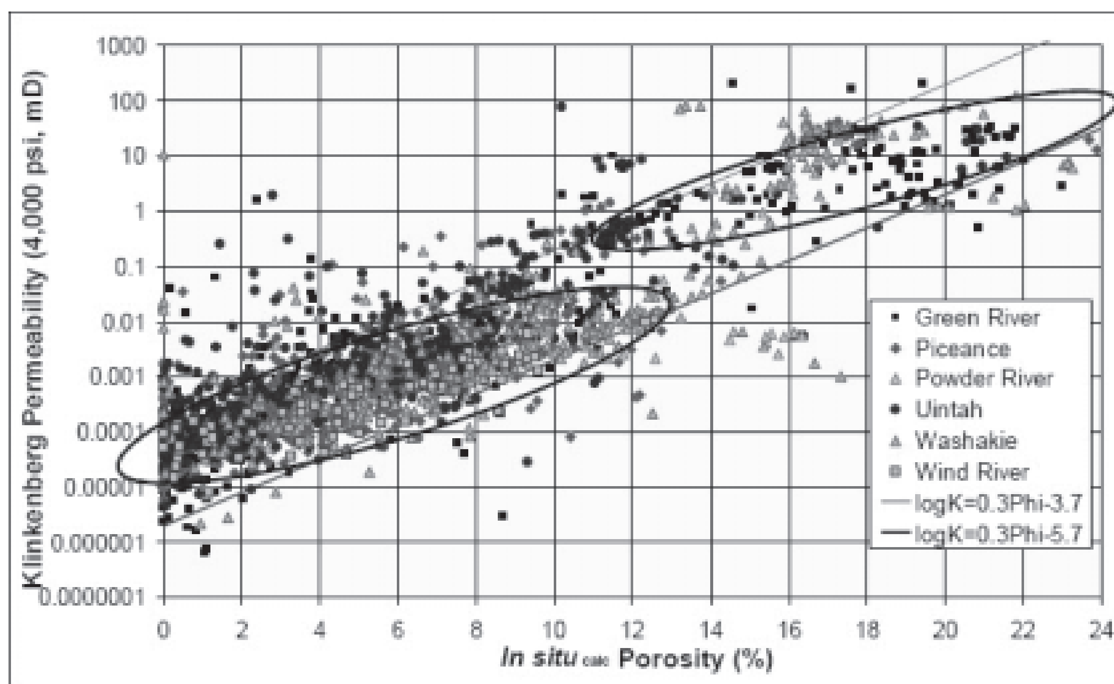
The study separated the Mesaverde into 9 zones. These zones included various sandstones such as braided streams, fluvial channels, blocky channels, and lagoon washovers. Thin coal beds were also present along with various shales. This study set a minimum sandstone thickness of 4 feet for reviewing. The different types of sandstones ranged from the study minimum 4 feet to 50 feet thick. Porosities ranged from 5% to 14%. Permeabilities ranged from.0137 md. to.1 md. Deep resistivities ranged from 10 ohms to over 50 ohms. Fractures are generally oriented N80W and dipping at 70 degrees. Gas was found to enter the wellbore from irregular directions. The situation of "regurgitated gas" entry was also observed. "Regurgitated gas" is gas that came from the drilling mud that invaded a wet and permeable sand. A report done by the University of Kansas Center for Research stated that the Mesaverde across all of the basins has an average grain density of 2.654+0.033 g/cc (error of 1std dev). During a 2008 AAPG (American Association of Petroleum Geologists) convention a presentation was given regarding the Mesaverde group. It reported, "Porosity consists of poorly to moderately connected moldic and secondary intergranular mesopores and traces of pore-lining ML/IS(?) clay containing

[3] FMI is a registered trademark of Schlumberger Logging Services

micro-porosity. Quartz cement is prominent, ferroan calcite is sparse. Pore-lining clay cement causes elevated Swi and reduced relative permeability"[4] In this same study, a graph of permeability to calculated porosity is provided that depicts the variability of the Uintah basin relative to the other Mesaverde basins. It can be viewed in Figure 4.

The study separated the Mancos into three zones. The FMI logs encountered shallow to deeper marine shales. The Mancos B member was found to include thin, very fine turbidite sandstones. Gas entry was documented in the Mancos section. Halliburton reported that the Mancos shale contains shear fracturing, and large gross intervals throughout the section. They feel that the fine turbidite sands are what help to make the shale more productive. However, due to the large size of the section the recommended method of producing a well is a multistage stimulation treatment.

FIGURE 4



Completions

The State of Utah requires the oil and gas well operators to file a completion report with certain information documented on the form. The State of Utah also requires that the monthly production volumes be reported for each well. Figure 5 presents a summary of some of the important information filed with the state in the Thurston project area by the offset operators.

4 http://www.kgs.ku.edu/mesaverde/04_Web_Structure/Reports_and_Presentations/4_SanAntonio_AAPG_March-08/08-21-08_2008_AAPG_SanAntonio-Byrnesetal-Lithofacies_and_petrophysical_properties_of_Kmv.pdf

Figure 4 Alan P Byrnes, "Lithofacies and Petrophysical properties of Mesaverde Tight-gas Sandstones in Western U.S. Basins." 2008 AAPG Annual Convention Presentation, San Antonio. 2008.

FIGURE 5

Thurston Energy, LLC Project
Uintah County, Utah
9S Range 24E Wells with Completion Reports

Max Gas Production Rate MMCF/MO	API	Operator	Perforated Top Depth	Perforated Bottom Depth	Formation	Notes	Frac Fluid Type	Frac Fluid Volume (bbls)	Sand (M lbs)
3672	43-047-35632	Houston Exploration Co	6293	6533	MV	Stage 1			203
7891	43-047-35691	Houston Exploration Co	6939	6950	MV	Stage 3			140
		Houston Exploration Co	6958	6968	MV	Stage 3			140
		Houston Exploration Co	7011	7022	MV	Stage 3			140
		Houston Exploration Co	7219	7224	MV	Stage 2			78
		Houston Exploration Co	7241	7244	MV	Stage 2			78
		Houston Exploration Co	7254	7261	MV	Stage 2			78
		Houston Exploration Co	7276	7283	MV	Stage 2			78
		Houston Exploration Co	7290	7300	MV	Stage 2			78
		Houston Exploration Co	7473	7478	MV	Stage 1			130
		Houston Exploration Co	7549	7554	MV	Stage 1			130
		Houston Exploration Co	7633	7649	MV	Stage 1			130
		Houston Exploration Co	7710	7719	MV	Stage 1			130
		Houston Exploration Co	7762	7768	MV	Stage 1			130
		Houston Exploration Co	7778	7781	MV	Stage 1			130
9589	43-047-35910	Houston Exploration Co	6393	6632	MV	Stage 1			90
		Houston Exploration Co	7066	7400	MV	Stage 2			178
		Houston Exploration Co	7811	7966	MV	Stage 3			142
2941	43-047-35911	Houston Exploration Co	7455	7466	MV	Stage 3			159
		Houston Exploration Co	7471	7474	MV	Stage 3			159
		Houston Exploration Co	7495	7500	MV	Stage 3			159
		Houston Exploration Co	7536	7542	MV	Stage 3			159
		Houston Exploration Co	7580	7588	MV	Stage 3			159
		Houston Exploration Co	7672	7677	MV	Stage 2			100
		Houston Exploration Co	7692	7695	MV	Stage 2			100
		Houston Exploration Co	7712	7714	MV	Stage 2			100
		Houston Exploration Co	7724	7726	MV	Stage 2			100
		Houston Exploration Co	8120	8130	MV	Stage 1			89
		Houston Exploration Co	8148	8153	MV	Stage 1			89
		Houston Exploration Co	8171	8176	MV	Stage 1			89
24294	43-047-35966	Enduring Resources	5049	5050	W	Stage 2			15
		Enduring Resources	5996	7522	MV	Stage 1			333
23508	43-047-35967	Enduring Resources	4720	4721	W	Stage 2			46
		Enduring Resources	6048	7470	MV	Stage 1			154
693	43-047-36019	Enduring Resources	7060	7582	MV	Stage 1			111
5939	43-047-36174	Kerr McGee		7718	MV	Stage 1	Slick Water	1231	40
		Kerr McGee	7173	7377	MV	Stage 2	Slick Water	1258	46
		Kerr McGee	6982	7024	MV	Stage 3	Slick Water	1260	46
12254	43-047-36175	Kerr McGee		7839	MV	Stage 1	Gel (20)	953	100
		Kerr McGee	7345	7443	MV	Stage 2	Gel (20)	1384	180
		Kerr McGee	7049	7224	MV	Stage 3	Gel (18)	2223	262
		Kerr McGee	6876	6881	MV	Stage 4	Gel (18)	457	49
12610	43-047-36179	Kerr McGee	7605	7642	MV	Stage 1	Slick Water	632	27
		Kerr McGee	7421	7431	MV	Stage 2	Slick Water	758	25
		Kerr McGee	7293	7297	MV	Stage 3	Slick Water	369	9
		Kerr McGee	7041	7193	MV	Stage 4	Slick Water	2709	100
		Kerr McGee	6764	6768	MV	Stage 5	Slick Water	410	23
20100	43-047-36100	Kerr McGee		7670	MV	Stage 1	Gel (20)	1717	201
		Kerr McGee	7132	7284	MV	Stage 2	Gel (20)	4155	576
		Kerr McGee	6690	6910	MV	Stage 3	Gel (18)	834	100
		Kerr McGee	6344	6348	MV	Stage 4	Gel (18)	416	45
34019	43-047-36291	Kerr McGee	7584	7752	MV	Stage 1	Slick Water	1155	35
		Kerr McGee	7171	7425	MV	Stage 2	Slick Water	848	14
		Kerr McGee	6866	7026	MV	Stage 3	Slick Water	1092	71
		Kerr McGee	6666	6735	MV	Stage 4	Slick Water	1024	36
		Kerr McGee	5738	5850	W	Stage 5	Slick Water	1302	47
15233	43-047-36734	Enduring Resources	6816	6817	MV	Stage 1			207
		Enduring Resources	7058	7059	MV	Stage 1			207
		Enduring Resources	7412	7413	MV	Stage 1			207
		Enduring Resources	7539	7540	MV	Stage 1			207
20903	43-047-36735	Enduring Resources	5244	5245	W	Stage 2			46
			5930	7640	MV	Stage 1			273

The first column in Figure 5 is the maximum monthly production rate a well ever produced. This rate provides an indicator from which each well can be compared to the other wells in the area to gauge a wells relative success. Assuming the operator delivered the designed stimulation effectively, a strong maximum rate indicates good reservoir quality and a good stimulation. The data in Figure 5 displays data filed for wells completed after January 1, 2004. It was assumed that the more recent completions would have more modern stimulation designs. Other columns in Figure 5 indicate how each well was perforated, the number of stages, the fluid types (only Kerr McGee reported fluid information), fluid volumes, sand volume, and sand quality. This information reports that only 4 feet of Wasatch was completed in these wells. Enduring Resources fracture stimulated the Mesaverde with only 1 stage and averaged about 200,000 lbs. of sand. Houston Exploration fracture stimulated the Mesaverde in 3 stages and averaged about 370,000 lbs. of sand per well. Kerr McGee fracture stimulated the Mesaverde with 3 to 5 stages and used both Gel and Slick Water stimulations. The fluid volumes ranged from 3749 bbls to 7122 bbls. The sand volumes ranged from 44,000 pounds to 922,000 pounds. Since two of the operators did not report fluid types or volumes, statistical type conclusions can not be made from this data set. The best well in this group was Kerr McGee's API No. 42-047-36291. This well was stimulated with a slick water fracture treatment that generally used relatively small amounts of 30/50 mesh sand and 6221 bbls of fluid.

ESTIMATE OF PROVED RESERVES – 18.09(6)(C)

An estimate of the proven reserves and the anticipated mining recovery and dilution factors or recovery factors with respect to oil and gas factors in place on a field by field basis together with the expected period of working.

No proved reserves for the existing wells have been assigned as they are currently shut-in pending remedial stimulation activities to add additional intervals as identified by the Halliburton study.

ESTIMATE OF PROBABLE RESERVES, POSSIBLE RESERVES, AND RESOURCES VOLUMES – 18.09(6)(D)

When the concession includes probable or possible reserves relevant to the long term future of the issuer this should be stated with a note on the type of evidence available. In isolated areas where no factual geological data has yet been obtained, possible reserves should be described by adjectives, not figures.

Probable reserves assigned to the existing wells are based on the anticipated results of additional stimulation work from the Halliburton study. While the study methodology is considered reliable, the associated confidence factor is not high enough to rank the predicted results in the proved category.

Reserves associated with all future drilling locations have been assigned as possible. Future drilling is scheduled to commingle the Wasatch, Mesaverde and Mancos zones. As performance data is limited for this scenario, recoveries have been estimated based on a probabilistic analysis of offset wells, by zone, and using type curves which summarize well production adjusted to a common starting date to derive a production profile.

The results of Halliburton's "SwiftLook Multi-Stage Gas Well Model" on seven wells associated with the Thurston project are shown in Figure 6.

FIGURE 6

LOG AND RESERVE DATA
Thurston Energy, LLC Project - Unitah County, Utah

Well No.	Gross Pay (FT)	Net Pay (FT)	Porosity Dec.	SW Dec	Acres	OGIP/AC MMCF	OGIP MMCF	OGIP MCF/AC-FT	# of Zones*	Stages #	Qi MCFD
DD 1-18	671	315	0.11	0.38	20	163	3,270	517	45 / 93	11	876
DD 11-29	431	249	0.11	0.41	20	112	2,240	450	25 / 26	8	751
DD 22X-27	732	357	0.11	0.36	20	222	4,440	622	26 / 57	7	1211
DD 23-17	489	262	0.10	0.38	20	143	2,860	546	32 / 65	8	1069
DD 23-20	360	275	0.09	0.45	20	115	2,300	418	24 / 26	5	1166
DD 31-15A	838	420	0.11	0.44	20	197	3,940	469	40 / 83	9	881
DD 41-9	603	296	0.11	0.44	20	137	2,730	463	29 / 61	8	618
Average	589	311	0.11	0.41	20	156	3111	498	32 / 59	8	939

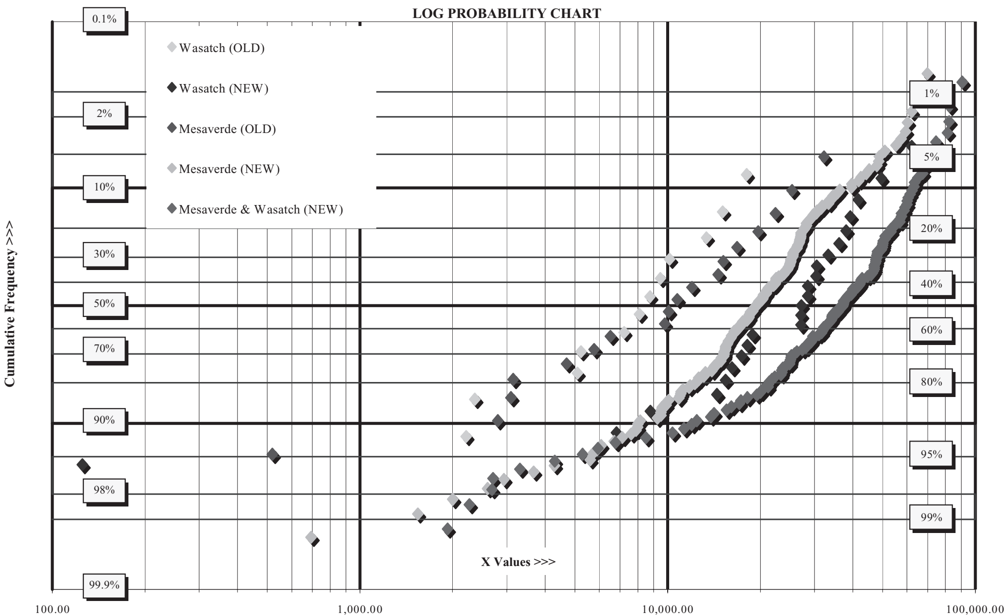
Notes: * 45/93 translates as 45 zones for completion out of 93 identified.

The average Original Gas in Place ("OGIP") for a 10 acre development pattern is 1692 MMcf. The average net pay is 311 feet in an average of 32 zones. Halliburton recommends 5 to 11 stage fracs for an average of 8 stages. The fluid volumes for the DD 22X-27 stimulation are 63,000 BBL and the sand volumes are 2.6 million pounds. These stimulations will develop an estimated average initial production rate of 922 MCFD. The initial rates range from 618 MCFD to 1513 MCFD.

Type Curve Analysis

Production data from the State of Utah was culled for all the wells in the study area. The data was divided by vintage into a group of older wells that had their date of first production before January 1, 2003 (hereinafter referred to as "OLD") and a group whose date of first production was after January 1, 2003 (hereinafter referred to as "NEW"). Each of these groups was then categorized by producing formation as reported to the State of Utah. The three formation categories are Wasatch, Mesaverde, and commingled Wasatch and Mesaverde. The Log Probability chart in Figure 7 presents the maximum production rate data for each well in these data groups.

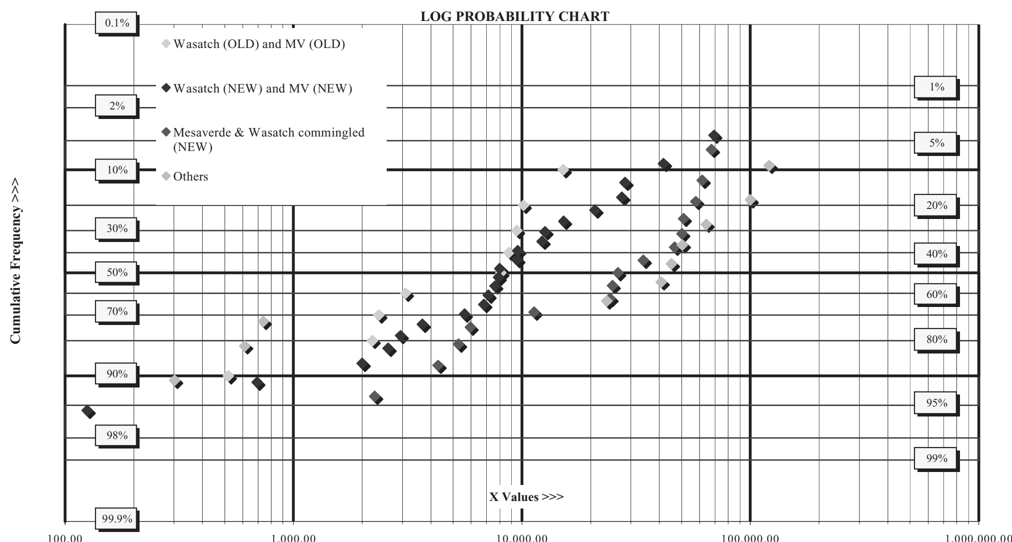
FIGURE 7



The cumulative frequency at 50% shows the OLD Wasatch wells have a producing rate of approximately 8,500 Mcf/Month versus the NEW Wasatch producing rate of 28,000 Mcf/Month. This implies that better completion techniques are improving the performance of these wells. Similarly, the cumulative frequency at 50% shows the OLD Mesaverde wells have a producing rate of approximately 10,000 Mcf/Month versus the NEW Mesaverde producing rate of 20,000 Mcf/Month; also implying that better completion techniques are improving results. The commingled Wasatch and Mesaverde NEW wells have a combined producing rate of 38,000 Mcf/Month. If the average producing rate for the Wasatch New completions is added to the Mesaverde New completions, the total is 48,000 Mcf/Month. A detailed evaluation of the logs and completion techniques would be required to define the exact causes for this difference between the expected commingled rate of 48,000 Mcf/Month and the actual commingled rate of 38,000 Mcf/Month. In the absence of such a study, it is reasonable to assume that at least part of the difference is due to the fact that commingled stimulation designs will be less efficient and provide lower rates. This would be due to the large size of the section being completed.

Figure 8 presents the same type of maximum production rate data as in Figure 7, but only Township 9S and Range 23 East data is displayed. Since there were fewer data points, the groupings are a little different. The data shown in yellow are the Wasatch OLD and Mesaverde OLD completions as one group. The blue are the Wasatch NEW and the Mesaverde NEW as one group. The red data are the commingled Wasatch and Mesaverde NEW. The green data represents other completions that were reported to the state of Utah without formation names or with descriptions that were unclear.

FIGURE 8



Once again the Old completions under performed the NEW completions. The Wasatch and Mesaverde NEW commingled wells average 26,000 Mcf/Month. This exceeds the expected value of 15,000 Mcf/month. The expected rate was calculated by adding 7,500 Mcf/month for a Wasatch New plus 7,500 Mcf/Month for a Mesaverde NEW. The stray green data points also have a high cumulative frequency value at 50%, exceeding 40,000 Mcf/Month.

Figures 9, 10 and 11 capture all the production data on the NEW wells included in Figure 4. The wells in Figure 7 are all the wells in the Thurston Study area. These NEW wells were sorted into three graphs by completion zone. Figure 9 has all the NEW wells completed in the Wasatch. Figure 7 has all the NEW wells completed in the Mesaverde. Figure 11 has all the NEW wells commingled in the Wasatch and the Mesaverde.

FIGURE 9

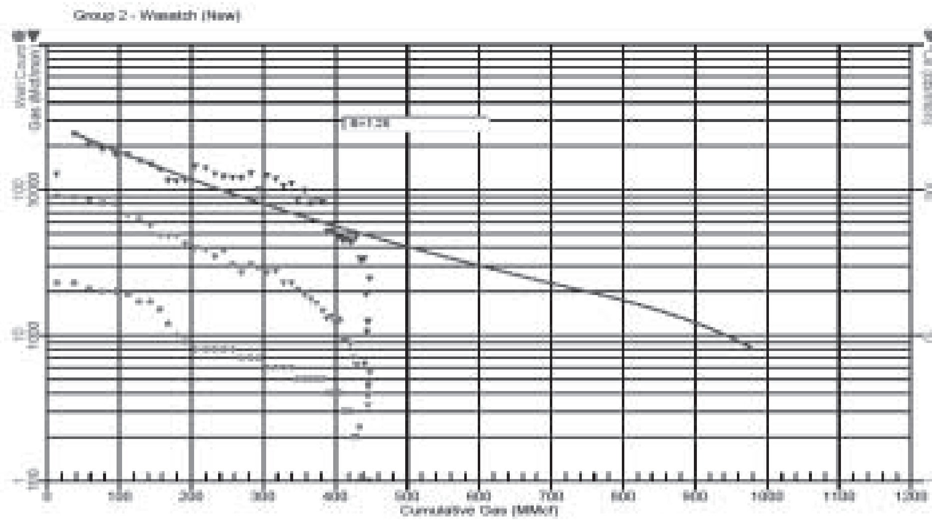


FIGURE 10

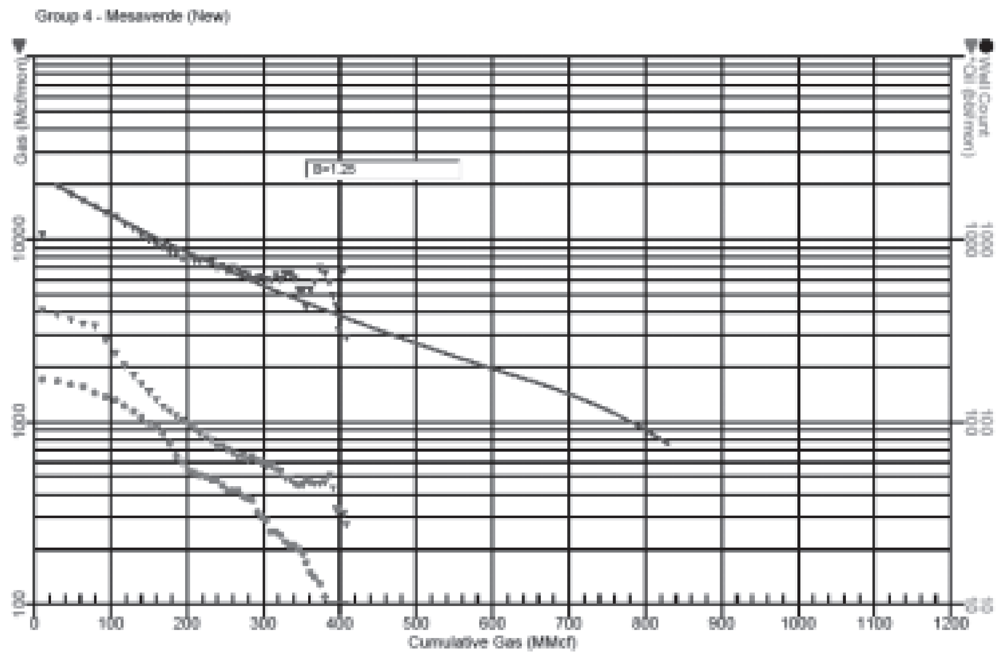


FIGURE 11

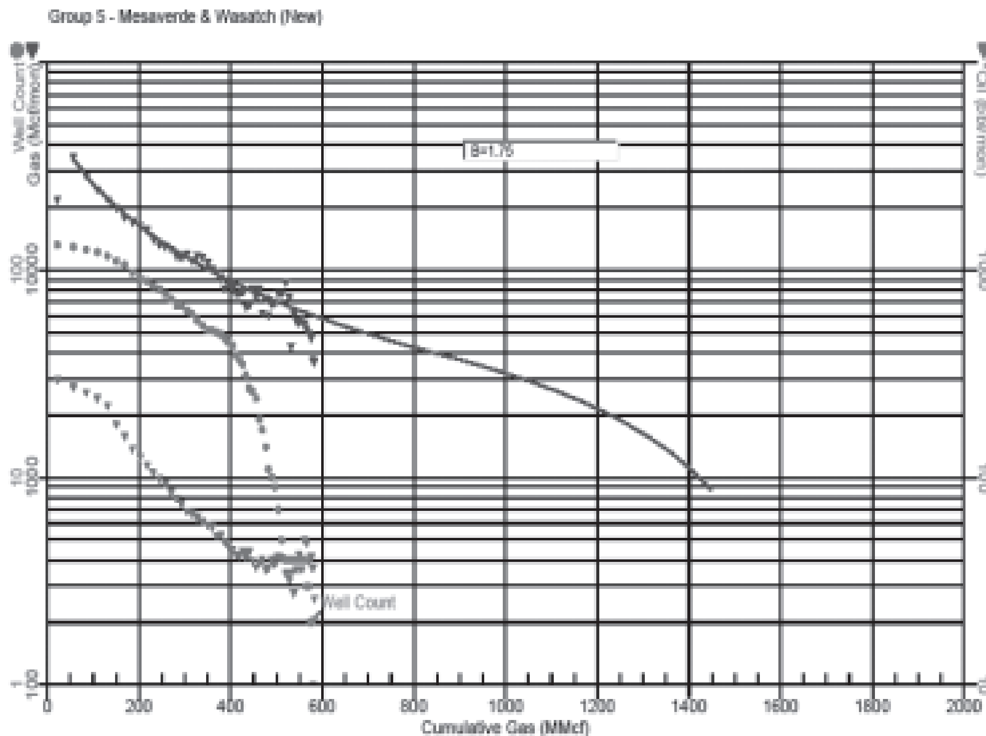
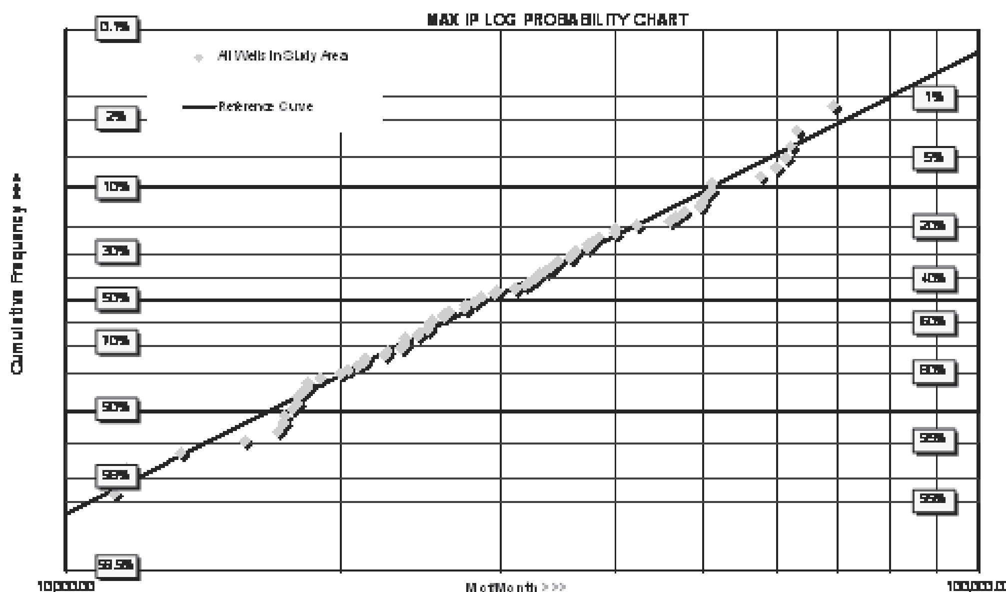


Figure 12 shows a maximum initial production curve based on known producers in the area.

FIGURE 12



The cumulative frequency at 50% shows the study area wells have a producing rate of approximately 28,200 Mcf/Month. The wells representing the top 6 data point on Figure 12 were all completed in 2007. Since there had never been any wells drilled with that level of success, it was

assumed that better frac technology was applied to these wells. The type of stimulation proposed by Halliburton using the SwiftLook program show in Figure 6 were used as a basis for assuming a low max IP of 25 Mmcf/Month. This resulted in a probable plus possible max IP as shown in Figure 13.

FIGURE #13

W-MV Probable plus possible	
Cum Frequency	MAX IP (Mmcf/Month)
P90	54
P50	37
P10	25

Note: W: Wasatch; MV: Mesaverde

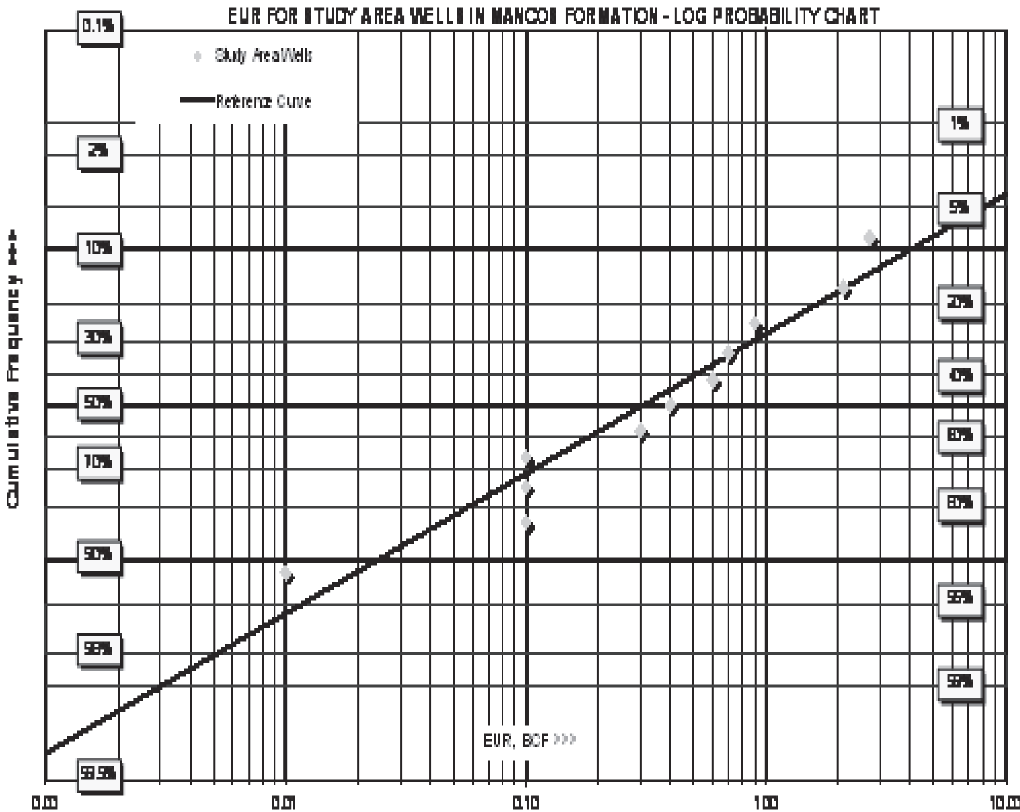
A limited number of wells in the regional vicinity of the Thurston acreage have targeted the Mancos Shale as an individual production zone. Of these, only recently completed wells, which would have used current slick-water frac technology, were chosen to review. From this list, the majority of the development activity occurred in 2002 and 2003. Wells since that time have tended to commingle production with other zones, inhibiting selective evaluation of the Mancos.

A 2006 report conducted for the Utah Department of Natural Resources, in part, evaluated the reservoir potential of the Mancos Shale. Geo-chemical data shows a Vitrinite reflectance (Ro) of approximately 0.65% near the Thurston acreage, increasing to 1.50% towards the west (Monument Butte area). This lower thermal maturity shows the reservoir being more oil-prone around the Thurston acreage verses more gas-prone to the west. A review of Mancos offsets in the area is shown in the table below. Potential recoveries from these wells show generally increasing liquids recovery on the east side of the review area. Several of the wells have apparently been re-fraced, with subsequent rates approaching the original maximum production rate.

Since January 2006, major development activity has occurred for the deeper potential reservoirs in the study area. Of note are Questar Exploration and Production Company's ("Questar") drilling permits. In 2006, they permitted 10 wells deeper than 12,000'. Permits issued in 2007 increased to 55, with the majority targeting the Dakota and other zones down to 17,000'. Production data on these wells is not yet available, but results reported in news releases and investor presentations from Questar are reporting good success in these efforts.

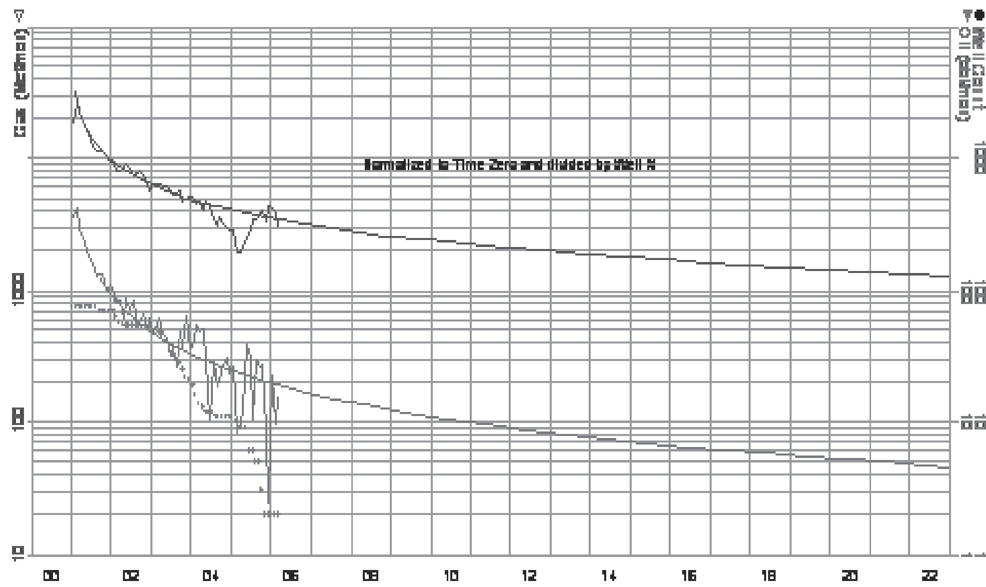
Since there are not too many well records in the predefined study area that drilled specifically to the Mancos formation, eleven wells data were collected and production projection was performed. The log probability plot of EUR was shown in Figure 14. The P50 EUR for the possible Mancos production was estimated about 320 Mmcf.

FIGURE 14



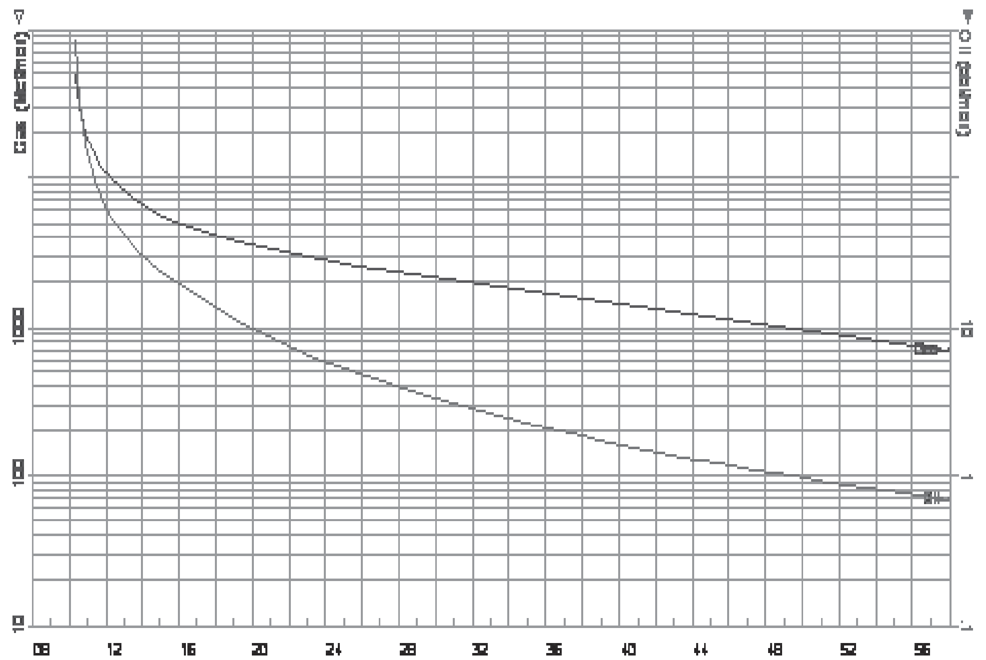
The monthly production data in Figure 3 have been normalized and averaged. The normalization converts the date of first production, for all wells, to the same date of first production. The sum of the production rates for all wells, by month, is divided by the number of wells to get the groups average normalized production rate. From the graph of production rate versus cumulative production volumes, a forecast is constructed that represents a type curve for the group of wells. The results of the forecasts are shown in Figure 15.

FIGURE 15



Based on the analysis on previous graphs, a new type curve of a typical well was proposed for the reserve of the Wasatch-Mesaverde-Mancos triple zones, as shown in Figure 16.

FIGURE 16



The parameters for Figures 15 and 16 were summarized as in Figure 17.

FIGURE 17

Thurston Energy, LLC Project Unitah County, Utah		
Type Curve Analysis by Completion Zone		
Curve Parameters	**Normalized Type Curve for W-MV**	**Proposed Type Curve for W-MV-M**
B	1.5	1.5
Decline Initial (%)	97.0%	97.0%
Gas Rate Initial (Mcf/Month)	31,500	48,600
Gas Rate Final (Mcf/Month)	500	500
Notes: W : Wasatch; MV: Mesaverde; M: Mancos		

Reserve Summary

The analysis was based on the proposed field development plan of 10 acre spacing. Thurston represents that the Dirty Devil project has 360 ten acre locations. The net probable and possible reserves for the Thurston project are estimated to be 1,857,600 barrels of condensate and 454,518,000 Mcf of gas. As of April 1, 2010, Thurston's net Reserves for one typical well location have been estimated to be as follows:

TABLE 1

	Net Reserve – As of 4/01/2010	
Reserve Class/Cat	**Oil & Condensate** *(bbl)*	**Natural Gas** *(Mcf)*
Probable (W-MV)	3,160	746,840
Possible (W-MV)	1,020	271,090
Possible (Mancos)	980	244,620
Total Possible	2,000	515,710
Grand Total	**5,160**	**1,262,550**

* Totals in Table 1 may not exactly match values in the attached cash flow summaries and tabular summaries due to computer rounding.

As of April 1, 2010, Thurston's net Reserves for the 2010 Capital Budget plan have been estimated to be as follows:

TABLE 2

Reserve Class/Cat	Net Reserves – As of 4/01/2010 Oil & Condensate *(bbl)*	Natural Gas *(Mcf)*
Probable Non-Producing	17,800	1,986,710
Possible Undeveloped	36,140	8,827,980
Grand Total	53,940	10,814,690

* Totals in Table 2 may not exactly match values in the attached cash flow summaries and tabular summaries due to computer rounding.

Total net Probable and Possible Reserves are defined as those natural gas and hydrocarbon liquid Reserves to Thurston's interests after deducting all royalties, overriding royalties, and reversionary interests owned by outside parties that become effective upon payout of specified monetary balances. All Reserves estimates have been prepared using standard engineering practices generally accepted by the petroleum industry and conform to guidelines developed and adopted by the Society of Petroleum Engineers ("SPE"), American Association of Petroleum Geologists ("AAPG"), World Petroleum Council ("WPC"), and the Society of Petroleum Evaluation Engineers ("SPEE"). All hydrocarbon liquid Reserves are expressed in United States barrels ("bbl") of 42 gallons. Natural gas Reserves are expressed in thousand standard cubic feet ("Mcf") at the contractual pressure and temperature bases.

Reserve Estimate Methodology

The Reserves estimates contained in this report have been prepared using standard engineering practices generally accepted by the petroleum industry. Non-producing Reserves were estimated by volumetric analysis, research of analogous reservoirs, or a combination of both. The maximum remaining Reserves life assigned to wells included in this report is 50 years.

Reserve Classification

The Reserves estimates included in this report conform to the guidelines specified by the SPE, 2007 Petroleum Resources Management System. For more information regarding reserve classification definitions see Appendix A. A complete discussion of the Reserves classification definitions can be found on the SPE website (www.spe.org).

Commodity Prices

Future hydrocarbon revenues were estimated using the New York Mercantile Exchange ("NYMEX") prices as of 11/17/2009 outlined in Table 2.

TABLE 2

NYMEX PRICES

Date	Natural Gas	Hydrocarbon Liquids
	($/MMBtu)	*($/Bbl)*
2010	5.34	82.92
2011	6.28	86.84
2012	6.51	88.74
2013	6.65	90.33
2014	7.00	92.11
Thereafter	7.00	92.11

Since a gas contract has not been executed, it was assumed the gas contract price will be the Colorado Interstate Gas (CIG) Hub price. The basis differential to NYMEX is -$0.55/MMBtu for gas. A gathering cost of $0.297/MMBtu was also applied. These adjustments were applied to the NYMEX prices listed in Table 2.

The NYMEX oil price was adjusted by assuming a -$2.00 per barrel deduction for crude quality, marketing fees, and BS&W, transportation costs and purchaser bonuses. These adjustments were applied to the NYMEX prices listed in Table 2.

Operating Expenses and Capital Costs

Since operating costs were not available, operating costs were estimated based on knowledge of analogous wells producing under similar conditions. The lease operating expenses in this report represent field level operating costs and include COPAS charges.

Capital costs were estimated using recent historical information reported by Thurston for analogous expenditures. The capital costs provided by the Thurston have been checked for reasonableness. For the purpose of this report, salvage value for each project was assumed to be equal to the abandonment costs.

Operating expenses and capital costs were not escalated in this evaluation.

GEOLOGIC AND GEOPHYSICAL DATA USED IN DEVELOPING RESOURCES ESTIMATES – 18.09(6)(E)

The nature of any geophysical and geological evidence used in making reserve estimates and the name of the organization that did the work.

HPESI has conducted an extensive geological evaluation of the Uinta Basin. Our assessment included interpretation of the Upper, Middle, and Lower Mesaverde, as well as the Mancos Sandstone reservoirs in the Uinta basin over Township 9 South Range 24 East, Uintah County, Utah. Well data, cross sections and published works were used to properly evaluate basin and its resources. No geophysical data was available for review. Figure 1 gives an accurate representation of the extent of the basin.

This study reviewed the following reference material and data:

1. Defining and Characterizing Mesaverde and Mancos Sandstone Reservoirs based on Interpretation of Image Logs, Eastern Uinta Basin;

2. Shale Gas Resources of Utah: Assessment of Previously Undeveloped Gas Discoveries;

3. Integrated Sequence Stratigraphic and Geochemical Resource Characterization of the Lower Mancos Shale, Uinta Basin, Utah;

4. Completion and Production Data from the Utah Division of Oil, Gas and Mining;

5. Geologic cross sections developed by McPherson Geologic Consulting; and

6. Halliburton's SwiftLook Multi-Stage Gas Well Model on Seven Wells

7. Anadarko's proposed plan to Department of Natural Resources, Utah of geological and engineering data in support of 10-Acre density development

SUMMARY OF CONTRACTUAL OR LICENSE TERMS AND PRODUCTION RIGHTS – 18.09(6)(F)

A statement on the production policy.

Thurston currently owns 100 percent of the working interests in the six leases associated with the field. The seven wells located on the leases are currently shut-in in due to a lack of capital to perform recommended stimulation activities. Thurston has applied to the BLM for required permits to perform the work and to drill additional wells on the leases. These permits will hold the leases for two years. Following restoration of production, the leases will be held as long as there is production on them.

ANTICIPATED FUTURE EXPLORATION, DEVELOPMENT, AND PRODUCTION ACTIVITY – 18.09(6)(G)

An indication of the progress of actual working.

HPESI understands that the seven existing wells associated with the Thurston acreage are to be fracture stimulated to add additional intervals, as recommended by the Halliburton study, during the first part of 2010 (Phase 1a). Due to budgeting constraints, however, not all identified intervals in the wells are scheduled to be stimulated. An additional seven locations are scheduled to be drilled later in 2010 following this phase (Phase 1b and 1c). Future drilling operations to develop the remaining locations are anticipated to commence in 2011. Thurston represents that there a total of 360 ten acre spaced locations that can be drilled.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 28 February 2010 of the market value of a 100% interest in certain natural gas and oilfield properties located in the Areas in the Uinta Basin, Uintah County, Utah State, the United States of America to be acquired by Pearl Oriental Innovation Limited.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

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24 May 2010

The Directors
Pearl Oriental Innovation Limited
Suite 1908, 19th Floor
9 Queen's Road Central
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Pearl Oriental Innovation Limited (referred to as the "Company") for us to provide our opinion on the market value of a 100% interest in certain natural gas and oilfield properties (referred to as the "Utah Gas and Oil Field") located in the Areas in the Uinta Basin, Uintah County, Utah State, the United States of America (referred to as the "United States") as at the date of valuation on 28 February 2010.

This report provides a description of the Utah Gas and Oil Field, an industry overview and the basis of valuation, the source of information, the scope of work and the valuation assumptions. It also explains the valuation methodology utilized and presents our conclusion of value.

BASIS OF VALUATION

We have conducted our valuation in accordance with the Business Valuation Standards published by the Hong Kong Business Valuation Forum in 2005. This valuation has been carried out on the basis of market value. Market value is defined as "*the estimated amount for which an asset 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*".

DESCRIPTION OF THE UTAH GAS AND OIL FIELD

The Utah Gas and Oil Field is located in the Areas in the Uinta Basin, Uintah County, Utah State, the United States. It covers an area of approximately 3,692 acres. According to a technical consulting report named *Technical Consulting Report of Certain Gas Properties Located in Uintah Country, Utah, USA* (referred to as the "Technical Report") prepared by Haas Petroleum Engineering Services, Inc.

(referred to as the "HAAS") on 25 November 2009, the estimated net probable and possible reserve of the Utah Gas and Oil Field is approximately 1,857,600 barrels of oil & condensate and 454,518,000 thousand cubic feet (Mcf) of natural gas.

According to a feasibility study (referred to as the "Feasibility Study"), potential 360 wells are anticipated to be drilled at the Utah Gas and Oilfield in coming years. Re-working for 7 existing wells and drilling for 7 new wells are expected in year 2010 while the "60 well development program" is planned by the Company in year 2011. Drilling of approximately 40 new wells per annum in average is planned for future development in coming years.

INDUSTRY OVERVIEW

World energy market is gaining importance as a result of constantly increasing demand for oil & natural gas over the period, which resulted in expediting exploration and production activities all over the world. Oil and natural gas resources across the globe are not evenly distributed, with the depth and geological characteristics of the reserves differing greatly. Therefore, the growth in the demand for hydrocarbon rests on the oil and natural gas exploration, drilling and production activity, but not essentially in proportion to the increase in these activities.

Growth in this sector could be attributed to declining oil and natural gas reserves, leading to an upsurge in exploration, development and drilling activities in offshore, deepwater, and developing regions. The growth in drilling activity resulted in explicitly increasing the number of drilling rigs across all regions. The level of exploration and production activity in major energy producing zones as well as the depth and drilling conditions drive the energy industry.

Estimates of world oil reserves have an upward trend in the past. As at 1 January 2009, world's proved oil reserves, as reported by the Oil & Gas Journal, were estimated at 1,342 billion barrels – 10 billion barrels (about 1%) higher than that for year 2008 (refer to Figure 1). According to the Oil & Gas Journal, 56% of the world's proved oil reserves are located in the Middle East.

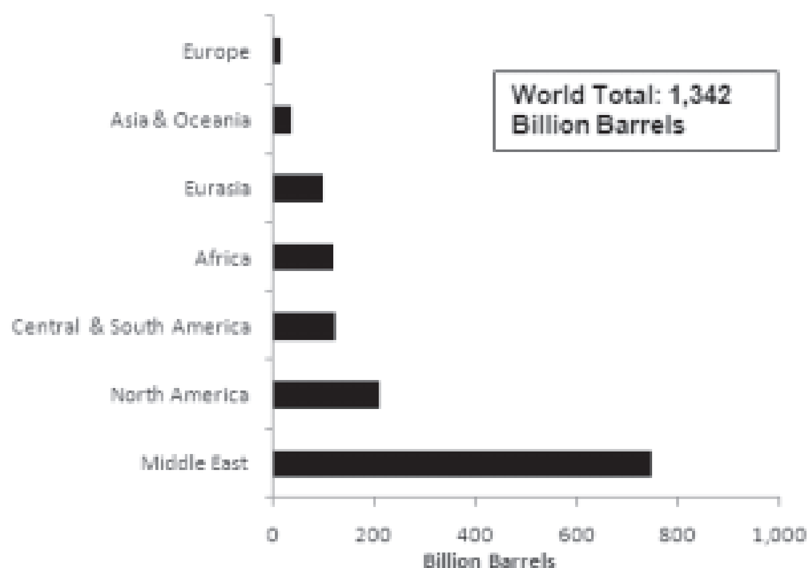

Figure 1: World Proved Oil Reserves by Geographic Region as at 1 January 2009

(Source: World Proved Crude Oil Reserves, January 1, 2009 Estimates, Energy Information Administration)

Proved reserves of crude oil are the estimated quantities that geological and engineering data demonstrate with reasonable certainty to be recovered in future years from known reservoirs, assuming existing technology and current economic and operating conditions. Companies whose stocks are publicly traded on United States stock markets are required by the U.S. Securities and Exchange Commission (SEC) to report their holdings of domestic and international proved reserves, following specific guidelines. Country-level estimates of proved reserves are developed from the data reported to the SEC, from foreign government report, and from international geologic assessments.

Among the top 20 reserve holders in 2009, 11 are Organization of the Petroleum Exporting Countries (OPEC) member countries that, together, account for 70% of the world's total reserves.

According to the International Energy Outlook 2009 issued by Energy Information Administration, world energy consumption is projected to expand by 44% from 2006 to 2030. Although high prices for oil and natural gas, which are expected to continue throughout the period, are likely to slow down the growth of energy demand in the long term, world energy consumption is projected to continue increasing strongly as a result of robust economic growth and expanding populations in the world's developing countries. Organization for Economic Co-operation and Development (OECD) member countries are, for the most part, more advanced energy consumers. Energy demand in the OECD economies is expected to grow slowly over the projection period, at an average annual rate of 0.6%, whereas energy consumption in the emerging economies of non-OECD countries is expected to expand by an average of 2.3% per year.

Region	**2006**	**2010**	**2015**	**2020**	**2025**	**2030**	**Average Annual Percent Change 2006-2030**
OECD	**241.7**	**242.8**	**252.4**	**261.3**	**269.5**	**278.2**	**0.6**
North America	121.3	121.1	125.9	130.3	135.6	141.7	0.6
Europe	81.6	82.2	84.8	87.9	90.0	91.8	0.5
Asia	38.7	39.5	41.8	43.1	43.9	44.6	0.6
Non-OECD	**230.8**	**265.4**	**299.1**	**334.4**	**367.8**	**400.1**	**2.3**
Europe and Eurasia	50.7	54.0	57.6	60.3	62.0	63.3	0.9
Asia	117.6	139.2	163.2	190.3	215.4	239.6	3.0
Middle East	23.8	27.7	30.3	32.2	34.6	37.7	1.9
Africa	14.5	16.2	17.7	19.1	20.6	21.8	1.7
Central and South America	24.2	28.3	30.3	32.5	35.2	37.7	1.9
Total World	**472.4**	**508.3**	**551.5**	**595.7**	**637.3**	**678.3**	**1.5**

Table 1. World Marketed Energy Consumption by Country Group, 2006-2030

(Source: International Energy Outlook 2009)

The projected world consumption of natural gas made by Energy Information Administration up to 2030 is as follows:

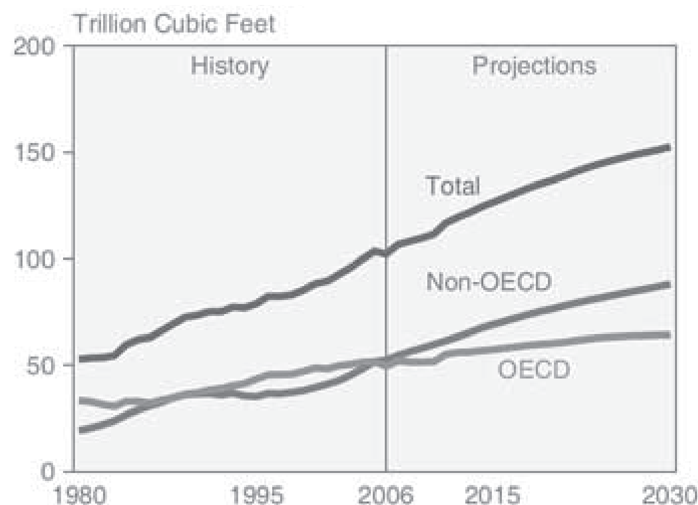

Figure 2: World Natural Gas Consumption, 1980-2030
(Source: International Energy Outlook 2009)

SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with the financial and operational data related to the Utah Gas and Oil Field, which were provided by the senior management of the Company.

The valuation of the Utah Gas and Oil Field required consideration of all pertinent factors affecting the economic benefits of the Utah Gas and Oil Field and its ability to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

- The business nature and the physical conditions of the Utah Gas and Oil Field;
- The financial and operational information related to the Utah Gas and Oil Field;
- The specific economic environment and competition for the market in which the Utah Gas and Oil Field is currently exposed to or will be exposed to;
- Market-derived investment returns of entities engaged in similar lines of business;
- The financial and business risks related to the Utah Gas and Oil Field, including the continuity of income and the projected future results; and
- The Technical Report indicating the amount of oil and natural gas reserve within the Utah Gas and Oil Field.

SCOPE OF WORKS

In the course of our valuation work for the Utah Gas and Oil Field, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the senior management of the Company:

- Interviewed with the senior management of the Company to understand the core business operations of the Utah Gas and Oil Field;
- Obtained all relevant financial and operational information of the Utah Gas and Oil Field;
- Performed market research and obtained statistical figures from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information related to the Utah Gas and Oil Field, which were provided by the senior management of the Company;
- Prepared a business financial model to derive the indicated value of the Utah Gas and Oil Field; and
- Presented a description of the Utah Gas and Oil Field, an industry overview, source of information, scope of works, valuation assumptions, valuation methodology and our conclusion of value in this report.

VALUATION ASSUMPTIONS

Due to the changing environment in which the Utah Gas and Oil Field is currently exposed to or will be exposed to, a number of assumptions had to be established in order to sufficiently support our concluded value of the Utah Gas and Oil Field. The major assumptions adopted in our valuation are:

- All licenses, permits, certificates and consents issued by any local, provincial, or national government or other authorized entity or organization that will affect the continuity of the Utah Gas and Oil Field have been obtained or can be obtained upon request with an immaterial cost;
- There will be no material change in the existing political, legal, fiscal, technological, market and economic conditions in the jurisdiction where the Utah Gas and Oil Field is currently exposed to or will be exposed to, which will affect the revenues and incomes being generated;
- There will be no material change in the taxation laws and regulations in the jurisdiction where the Utah Gas and Oil Field is currently exposed to or will be exposed to, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- The market return, market risk, interest rates and exchange rates will not differ materially from those presently prevailing and market and economic conditions will not differ materially from those of present or forecasted;

- The core business operations of the Utah Gas and Oil Field will not differ materially from those of present or expected;

- The oil and natural gas reserve of the Utah Gas and Oil Field will not differ materially from the amount stated in the Technical Report;

- The expected capital expenditure of the Utah Gas and Oil Field will not differ materially from the amount stated in the Feasibility Study;

- The exploration and development works and the exploitation of oil and natural gas in the Utah Gas and Oil Field will be successful as planned;

- There exist, or will exist when the exploitation of oil and natural gas in the Utah Gas and Oil Field starts, reliable and adequate transportation network and capacity for the products of oil and gas exploited, and the oil and natural gas will be able to transport and sell at the market prices;

- The supply and demand, both domestically and internationally, of oil and natural gas or similar products will not differ materially from those of present or expected;

- The market prices and the relevant costs, both domestically and internationally, of oil and natural gas or similar products will not differ materially from those of present or expected;

- The financial and operational information in respect of the Utah Gas and Oil Field stated in the Feasibility Study have been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful considerations by the senior management of the Company;

- The fundamental information in respect of the Utah Gas and Oil Field stated in the Technical Report have been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful considerations by HAAS;

- The management of the Utah Gas and Oil Field will implement only those prospective financial and operational strategies that will maximize the efficiency of the operation of the business;

- The management of the Utah Gas and Oil Field have sufficient knowledge and experience in respect of the operation of the business, and the turnover of any director, management or key person will not significantly affect the operation of the business;

- The management of the Utah Gas and Oil Field has adequate financial capital for the investments in projected capital expenditure and working capital from time to time, and any scheduled interest or repayment of loan and payable will be paid on time;

- The management of the Utah Gas and Oil Field has adopted reasonable and appropriate contingency measures against any human disruptions such as fraud, corruption and strike, and the occurrence of any human disruptions will not significantly affect the operation of the business;

- The management of the Utah Gas and Oil Field has adopted reasonable and appropriate contingency measures against any natural disasters such as fire, flood and hurricane, and the occurrence of any natural disasters will not significantly affect the operation of the business; and

- The Utah Gas and Oil Field can be freely disposed of and transferred free of all encumbrances for its existing or approved uses in the market to any third party without payment of any premium to any local, provincial, or national government or other authorized entity or organization.

VALUATION METHODOLOGY

Three generally accepted valuation approaches have been considered in the valuation. They are the cost approach, the market approach and the income approach.

The Cost Approach

The cost approach provides an indication of value based on the principle that an informed buyer would pay no more than the cost of producing a substitute asset with equal utility as the subject asset.

Under the cost approach, the historic cost method measures the cost incurred through the development of the subject asset at the time it was developed; the replication cost method measures the amount of investment that would be required to develop an asset similar to the subject asset; and the replacement cost method measures the amount of investment that would be required to develop the subject asset as it currently exists.

The Market Approach

The market approach provides an indication of value by comparing the subject asset to similar businesses, business ownership interests or securities that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the comparable assets.

Under the market approach, the guideline company method computes a price multiple for publicly listed comparable companies and then applies the result to a base of the subject asset; and the sales comparison method computes a price multiple using recent sales and purchase transactions of comparable assets and then applies the result to a base of the subject asset.

The Income Approach

The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.

The discounted cash flow (DCF) method is the most fundamental and prominent method of the income approach. In applying the DCF method, the expected cash flows of an asset in the future were determined. The results were then discounted using a discount rate, or the cost of capital, to determine the present value of the expected cash flows. The present value of the expected cash flows was computed using the following formula:

$$PVCF = CF_1/(1+r)^1 + CF_2/(1+r)^2 + ... + CF_n/(1+r)^n$$

Where:

PVCF	=	present value of expected cash flows
CF	=	expected cash flow
R	=	discount rate

The Selected Valuation Approach

Among the three approaches, the income approach was ultimately considered to be the most appropriate valuation approach in this valuation as the income approach necessitates a more detailed analysis of expected cash flows and cost of capital for such cash flows as well as the Utah Gas and Oil Field's specific geological and geographical condition that the market approach does not. The market approach, instead, relies generally on deriving value through a measure of the values of comparable companies or market transactions. Given the characteristics of the Utah Gas and Oil Field, there was a lack of explicitly comparable companies or market transactions available as at the date of valuation on 28 February 2010 to derive an indicative value of the Utah Gas and Oil Field with sufficient level of accuracy. Accordingly, the market approach was abandoned. The cost approach was also considered inappropriate as the replication cost of the Utah Gas and Oil Field may not represent the value of the Utah Gas and Oil Field. Under the income approach, the DCF method was adopted.

Calculation of expected cash flow (i.e. free cash flow)

The free cash flows were determined from the net income after tax plus non-cash expenses, such as depreciation and amortization expenses, and after-tax interest expense; the result was then less non-cash incomes, investment in capital expenditure and investment in net working capital. The free cash flows were computed using the following formula:

$$FCF = NI + NCE + Int\ (1 - T_{int}) - NCI - InvFA - InvWC$$

Where:

FCF	=	free cash flow
NI	=	net income after tax
NCE	=	non-cash expenses
Int	=	interest expenses
T_{int}	=	tax rate applied to interest expense
$Int\ (1 - T_{int})$	=	after-tax interest expense

NCI	=	non-cash incomes
InvFA	=	investment in capital expenditure
InvWC	=	investment in net working capital

The Comparable Companies

The market value of Utah Gas and Oil Field was determined with reference to the financial and operational information of publicly listed companies that are considered to be comparable to the Utah Gas and Oil Field.

The selection of the comparable companies was based on the comparability of the overall industry sector and geographic location. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as projected sales growth rate, profit margin, required resources investment, overall perceived risk and uncertainties that guided the market in reaching the expected returns and risks. The comparable companies are as follows:

Comparable Company 1

Name of Company	:	Ultra Petroleum Corp.
Bloomberg Ticker	:	UPL US
Core Businesses	:	Ultra Petroleum Corp. is a natural gas exploration and production company focused on the Green River Basin of Wyoming in the United States. The Company also explores for oil and gas in China.

Comparable Company 2

Name of Company	:	Southwestern Energy Company
Bloomberg Ticker	:	SWN US
Core Businesses	:	Southwestern Energy Company is an independent energy company primarily focused on natural gas and crude oil exploration, development and production (E&P) within the United States. The Company operations also include natural gas gathering, transmission and marketing, as well as natural gas distribution.

Comparable Company 3

Name of Company	:	CNX Gas Corporation
Bloomberg Ticker	:	CXG US
Core Businesses	:	CNX Gas Corporation owns and operates the gas assets of Consol Energy Inc.

Comparable Company 4

Name of Company	:	Quicksilver Resources Inc.
Bloomberg Ticker	:	KWK US
Core Businesses	:	Quicksilver Resources Inc. is involved in the acquisition, development, exploration, production, and sale of natural gas and crude oil. The Company also conducts operations in the gathering, processing, and transmission of natural gas. Quicksilver owns properties in Michigan, Wyoming and Montana in the United States, and in Canada.

Comparable Company 5

Name of Company	:	Rosetta Resources, Inc.
Bloomberg Ticker	:	ROSE US
Core Businesses	:	Rosetta Resources, Inc. is an oil and gas exploration and production company.

Comparable Company 6

Name of Company	:	PetroQuest Energy, Inc.
Bloomberg Ticker	:	PQ US
Core Businesses	:	PetroQuest Energy, Inc. explores, develops, acquires, and operates oil and gas properties onshore and offshore in the Gulf Coast Region.

The Discount Rate

The Weighted Average Cost of Capital (WACC) was adopted as the discount rate for the valuation. It is the required return on the capital investment of a company. The cost of capital will be different for each source of capital and class of securities a company has, reflecting the different risks. The WACC is the weighted average of the costs of each of the different types of capital, and the weights are proportion of the company's capital that comes from each source. The WACC was computed using the following formula:

$WACC = R_e (E/V) + R_d (D/V) (1-T_c)$

Where:

WACC	=	the weighted average cost of capital
R_e	=	the cost of equity
R_d	=	the cost of debt
E	=	the value of the firm's equity
D	=	the value of the firm's debt

V	=	the sum of the values of the firm's equity and debt
Tc	=	the corporate tax rate

The WACC comprises two components: the cost of equity and the cost of debt. The cost of equity was determined using the Capital Asset Pricing Model (CAPM). The CAPM describes the relationship between the risk of a particular asset, its market price and the expected return to the investor, that investors required additional return to compensate additional risk associated. The CAPM was computed using the following formula:

$$K_c = R_f + \beta (K_m - R_f)$$

Where:

K_c	=	the expected return on capital
R_f	=	the risk-free rate
β	=	the beta coefficient
K_m	=	the expected market return
$K_m - R_f$	=	the market risk premium

In the CAPM, the time value of money is represented by the risk-free rate. The yield rate of the 10-year United States Government Bond as at the date of valuation of 3.61% was adopted as the risk-free rate in the valuation.

The market risk premium is the implied risk premium expected from the market using forecasted growth rates, earnings, dividends, payout ratios and current values. It represents the additional return required by an investor as compensation for investing in equities rather than a risk-free instrument. In the valuation, the market risk premium of the United States of America is 5.70%.

The beta coefficient measures the risk of an asset relative to the overall market. It reflects the sensitivity of an asset's value to economic variables that affect the values of all risky assets, including economic growth rates, interest rates, exchange rates and inflation rates.

In the valuation, the estimated beta for the Utah Gas and Oil Field was determined as the average of the betas of publicly listed companies that are considered to be comparable to the Utah Gas and Oil Field, with adjustment for the differences in corporate tax rates and leverage compositions.

The adjusted betas of the comparable companies, which measure their risks relative to the market, as extracted from Bloomberg, were derived from the corresponding raw betas, modified by the assumption that a security's beta moves toward the market average over time with the following generally accepted formula:

Adjusted Beta = 0.33 + 0.67 * Raw Beta

The raw betas and the adjusted betas of the comparable companies are as follows:

Comparable Company	**Raw Beta**	**Adjusted Beta**
Ultra Petroleum Corp.	0.960	0.973
Southwestern Energy Company	0.618	0.745
CNX Gas Corporation	0.784	0.856
Quicksilver Resources Inc.	1.915	1.610
Rosetta Resources, Inc.	2.210	1.807
PetroQuest Energy, Inc.	1.872	1.581

The unlevered beta was calculated to consider the differences in corporate tax rates and leverage compositions of the Utah Gas and Oil Field and the comparable companies. The unlevered beta removes the effects of the use of leverage on the capital structure of a firm. Removing the debt component allows an investor to compare the base level of risk between various companies. The unlevered beta was computed using the following formula:

$$\beta_u = \beta_l / [1 + (1 - T_c)(D/E)]$$

Where:

β_u	=	the unlevered beta
β_l	=	the levered beta
T_c	=	the corporate tax rate
D	=	the value of the firm’s debt
E	=	the value of the firm’s equity
D/E	=	the debt-to-equity ratio

The applied corporate tax rates and the unlevered betas of the comparable companies are as follows:

Comparable Company	**Applied Corporate Tax Rate**	**Unlevered Beta**
Ultra Petroleum Corp.	36.85%	0.912
Southwestern Energy Company	38.09%	0.719
CNX Gas Corporation	38.42%	0.841
Quicksilver Resources Inc.	34.81%	0.993
Rosetta Resources, Inc.	37.30%	1.535
PetroQuest Energy, Inc.	36.81%	1.216

The median of the unlevered betas of the comparable companies of 0.953 was then being relevered based on the specific corporate tax rate and the expected debt-to-equity ratio applied to the Utah Gas and Oil Field. The estimated beta for the Utah Gas and Oil Field was then calculated as 1.353. As a result, the cost of equity was calculated as 11.32%.

Illiquidity is a factor that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset. Although the cash flows used as the starting point in the calculation represent entity-specific cash flows, their present value is required to be determined using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset. Investors are willing to pay higher prices for more liquid assets than for otherwise similar assets that are less liquid. The illiquidity discount accounts for the premium in return that investors would require for less liquid assets. In our valuation, 4% was added to the cost of equity as the illiquidity premium.

The cost of debt of 2.05% was determined by the expected lending rate of the Utah Gas and Oil Field. Since the interest paid on debts are tax-deductible expense for a company, the cost of the company of obtaining debt funds is less then the required rate of return of the suppliers of the debt capital. The after-tax cost of debt of 3.25% was calculated by multiplying one minus the expected corporate tax rate of the Utah Gas and Oil Field of 37.08% with reference to the effective tax rate of comparable companies by the cost of debt.

The target weight of debt of 40% and the target weight of equity of 60% were determined by the senior management of the Company, according to their targeted capital structure in future.

As a result, the WACC of the Utah Gas and Oil Field was calculated as 10.01%.

SENSITIVITY ANALYSIS

The results of the sensitivity analysis with changes in the discount rate were as follows:

CHANGE IN DISCOUNT RATE	DISCOUNT RATE	MARKET VALUE	CHANGE IN MARKET VALUE
(%)	*(%)*	*USD*	*(%)*
2.00%	12.01%	360,000,000	-14.29%
1.00%	11.01%	390,000,000	-7.14%
0.00%	10.01%	420,000,000	–
-1.00%	9.01%	450,000,000	7.14%
-2.00%	8.01%	490,000,000	16.67%

REMARKS

For the purpose of our valuation and in arriving at our opinion of value, we referred to the information provided by the senior management of the Company to estimate the value of the Utah Gas and Oil Field. We have also sought and received confirmation from the Company that no material facts were omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions or estimates identified as being furnished by others, which have been used in formulating this analysis.

Unless otherwise stated, all money amounts stated herein are in United States Dollars (US$).

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices in accordance with the Business Valuation Standards published by the Hong Kong Business Valuation Forum in 2005, which rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, the HAAS or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of the 100% interest in the Utah Gas and Oil Field as at 28 February 2010 was **US$420,000,000 (UNITED STATES DOLLARS FOUR HUNDRED AND TWENTY MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the Company, HAAS, the Utah Gas and Oil Field, the Technical Report or the value reported.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng
BSc, MUD, MBA(Finance), MSc(Eng), PhD(Econ), FCIM, FRSM, SICME, SIFM, MHKIS, MCIArb, AFA, MASCE, MIET, MIEEE, MASME, MIIE, MASHRAE, MAIC
Managing Director

Marco T. C. Sze
B.Eng(Hon), PGD(Eng), MBA(Acct), CFA, AICPA/ABV, RBV
Director

Notes:

1. Dr. Tony C. H. Cheng serves as the Chairman of Institute of Mechanical Engineers, China and is a member of the Hong Kong Institute of Surveyors (General Practice), a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has over 5 years' experience in valuing similar assets or companies engaged in similar business activities as those of the Utah Gas and Oil Field worldwide.

2. Mr. Marco T. C. Sze is a holder of Chartered Financial Analyst, a member of the American Institute of Certified Public Accountants (AICPA) and is accredited in Business Valuation by the AICPA. In addition, he is a Registered Business Valuer under the Hong Kong Business Valuation Forum. He has over 4 years' experience in valuing similar assets or companies engaged in similar business activities as those of the Utah Gas and Oil Field worldwide.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was as follows:

Authorised:		*HK$*
200,000,000,000	Shares of HK$0.1 each	20,000,000,000
Issued and fully paid:		*HK$*
1,638,783,960	Shares of HK$0.1 each	163,878,396
918,460,000	Shares of HK$0.1 each at the Latest Practicable Date to be issued for the Acquisition	91,846,000
2,557,243,960		255,724,396

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which 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 the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO,

to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

LONG POSITIONS

(a) ORDINARY SHARES OF HK$0.10 EACH OF THE COMPANY

	Number of Shares held in the Capacity of				
Name of directors	**Beneficial Owner**	**Held by trust**	**Held by controlled corporation**	**Total number of shares held**	**Percentage of the issued share capital of the Company**
Wong Kwan *(Note)*	–	–	710,952,800	710,952,800	43.38%
Johnny Yuen	640,000	–	–	640,000	0.04%
Fung Hing Chiu, Cyril	–	1,272,090	–	1,272,090	0.08%
Zhou Li Yang	1,000,000	–	–	1,000,000	0.06%

Note: These Shares were held by Orient Day Developments Limited, which is wholly-owned by Mr. Wong Kwan.

(b) Share options

Name of Directors	**Capacity**	**Number of options held**	**Exercise Period**	**Exercise Price** *(HK$)*
Wong Kwan	Beneficial owner	3,000,000	05/08/2009-14/07/2019	0.56
Zhou Li Yang	Beneficial owner	2,000,000	05/08/2009-14/07/2019	0.56
Johnny Yuen	Beneficial owner	3,000,000	05/08/2009-14/07/2019	0.56
Yu Jian Meng	Beneficial owner	1,000,000	05/08/2009-14/07/2019	0.56
Fung Hing Chiu, Cyril	Beneficial owner	3,000,000	05/08/2009-14/07/2019	0.56
Lew Mon Hung	Beneficial owner	3,000,000	03/12/2009-14/07/2019	0.83

Save as disclosed above, none of the directors, chief executive nor their associates had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which 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

position which the Directors and chief executive were deemed or taken to have under such provisions of SFO, or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for securities Transactions by Directors of Listed Companies contained in the Listing Rules.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, as at the Latest Practicable Date, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Orient Day Developments Limited *(Note)*	Beneficial owner	710,952,800	43.38%

Note: Orient Day Developments Limited is wholly owned by Mr. Wong Kwan.

Save as disclosed above, the Directors and chief executive of the company are not aware of any person (other than a Director or chief executive of the Company) who as at the Latest Practicable Date had interests and/or short position in the shares and underlying shares of the Company which would full to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. LITIGATIONS

The Group have below litigations at the Latest Practicable Date.

(a) The Group had three pending litigation claims with the ex-directors of a disposed subsidiary, Dransfield Holdings Limited ("DHL"), who claim against the Group for a total sum of not less than HK$11.4 million. As disclosed in the Company's announcement dated 23 August 2005, the Company's interest in DHL was disposed of on 23 July 2005. It was alleged in these claims that by disposing of all its shares in DHL, the Company was evading liabilities and denying these claimants' benefits of the debts owned by DHL. A judgment (the "Judgment") was given in favour of Horace Yao Yee Cheong, Habile International Holdings Limited and Makdavy Holdings Limited (collectively, the "Plaintiffs") against the Company on 22 May 2009 for the aggregate sum of approximately HK$6.9 million together with interests thereon and legal costs. The Company has filed an appeal against the Judgment and the appeal was allowed by the Court of Appeal and the Judgment was set aside on 13 April 2010.

(b) As announced by the Company on 12 August 2008, on 7 August 2008, Zhang Jingyuan (formerly know as Zhang Genyu ("Zhang")) issued and served a writ ("the Writ") in the High Court of Hong Kong against, inter alia, the Company, Get Wealthy, Champion Merry Investment Limited ("Champion"), a subsidiary of the Company and Mr. Wong Kwan, Chairman, Chief executive, executive director and also a majority beneficial shareholder of the Company, in which Zhang claimed, inter alias, against the Company and Champion for damages for alleged breaches of a Joint Venture Agreement dated 15 July 2006 (the "Joint Venture Agreement"), and Zhang also applied for an order that the joint venture agreement and the deed of charge dated 25 October 2006 in favour of the Company in respect of all of Zhang's shares in China Coal Energy Holdings Limited ("China Coal") be rescinded. After considering opinion from the Company's legal advisors, the Company is of the view that all the claims in the Writ are of no substance and groundless, and the Board will strongly defend and has confidence to defeat such claims and the Company has issued counterclaim against Zhang, including without limitation, the dividend from China Coal of HK$80,000,000, damages for breaches of the Joint Venture Agreement and other relief. In addition, China Coal has taken legal action against Zhang and other 4 persons for their breaches of duties as directors of Taiyuan Sanxing Coal Gasification Company Limited in the High Court of Shanxi.

The Group and the other defendants have made applications for striking out of Zhang's claims against the Group and the other defendants and also a summary judgment for counterclaims against Zhang for dividend from China Coal Energy Holdings Limited of HK$80 million and other damages. The Group's (and the other defendants') said applications have been recently heard but have been dismissed by the Court with costs, and the parties to the legal action will proceed to trial on dates to be fixed. After consulted with the Company's legal advisors, the Board has confidence that the Group's rights and interests can be fully protected during the coming trial.

(c) Zhang Xinyu obtained a judgment (the "Judgment") on 10 November 2008 from Taiyuan Intermediate People's Court (太原市中級人民法院) against Taiyuan Sanxing Coal Gasification Company Limited ("Taiyuan Sanxing"), inter alia, that:

1. an agreement (the "December 2006 Agreement") entered into among Zhang Xinyu, Zhang Jingyuan and Taiyuan Sanxing on 28 December 2006 in relation to the transfer of equity interests in Shanxi Sanxing Coal and Coke Limited (山西三興煤焦有限公司) ("Shanxi Sanxing") from Zhang Jingyuan and Zhang Xinyu to Taiyuan Sanxing will be cancelled; and

2. after the Judgment becomes effective, Shanxi Sanxing has to be restored to the original situation before the December 2006 Agreement, and all shares in Shanxi Sanxing have to be transferred back to Zhang Xinyu and Zhang Jingyuan.

To the best knowledge of the Group, Zhang Xinyu is the younger brother of Zhang Jingyuan (formerly known as Zhang Genyu) and the chairman of board, a director and also the legal representative of Taiyuan Sanxing. Unknown to the Company, Zhang Xinyu has instituted

legal proceedings (the "Legal Proceedings") against Taiyuan Sanxing in the Taiyuan Intermediate People's Court, and the Legal Proceedings have been wilfully concealed to the Company and China Coal Energy Holdings Limited ("China Coal").

The Board is of the view that the value of the Company's investment in China Coal may be affected if the Judgement cannot be overruled but the Board is confident to appeal and overrule it as mentioned above.

(d) There is a dispute over the title of the mining permit of a coal mine located at 山西省臨縣林家坪鎮白家峁村 (the "Coal Mine") owned by Shanxi Sanxing Coal and Coke Limited (山西三興煤焦有限公司) ("Shanxi Sanxing"). In particular, (山西省臨縣林家坪鎮白家峁村民委員會) (the "Village") has sued the Department of Land and Resources, Shanxi Province (山西省國土資源廳) in the People's Intermediate Court of Taiyuan (太原市中級人民法院) and claimed that the Department of Land and Resources, Shanxi Province (山西省國土資源廳) has wrongfully transferred the title of the Coal Mine from the Village to other party and to obtain an administrative judgment of revoking such change. The Company understands that the Department of Land and Resources, Shanxi Province (山西省國土資源廳) has filed its appeal against the judgment but, to the best of the Company's knowledge, the appeal has been dismissed by the People's High Court of Shanxi Province (山西省高級人民法院). As a result of the judgment, the transfer of the title of the Coal Mine to Shanxi Sanxing in April 2002 has been confirmed as an illegal administrative action, and the mining permit of Shanxi Sanxing issued by the Department of Land and Resources, Shanxi Province (山西省國土資源廳) in December 2006 should be cancelled.

According to the legal advice of the Company's PRC lawyers, the Company and China Coal, as the controlling stakeholder of Sanxing and the Coal Mine have paid genuine consideration as bona fide purchasers and the investments have been approved by the Department of Commerce, Shanxi Province (山西省商務廳), the Department of Land and Resources, Shanxi Province (山西省國土資源廳) and the Department of Industrial and Commercial Administration, Shanxi Province (山西省工商行政管理局), therefore the investments should be protected by the PRC laws. They have relied on the legality of Shanxi Sanxing as the registered owner of the title of the Coal Mine according to the records in the Department of Land and Resources, Shanxi Province (山西省國土資源廳), the Department of Commerce, Shanxi Province (山西省商務廳) and the Department of Industrial and Commercial Administration, Shanxi Province (山西省工商行政管理局). The Company has already taken immediate steps and measures including, but not limited to, reporting to the People's Government of Shanxi Province (山西省人民政府), the People's High Court of Shanxi Province (山西省高級人民法院), the Department of Commerce, Shanxi Province (山西省商務廳) and the Department of Land and Resources, Shanxi Province (山西省國土資源廳) to request suspension of execution of the administrative judgment made by the People's High Court of Shanxi Province (山西省高級人民法院) and also requesting the case should be fairly handled in accordance with the laws and facts in order to protect our rights and interests in the Coal Mine. The Company also indicates that it will reserve its rights of taking necessary legal actions against the relevant government authorities of Shanxi Province for compensations should the Company incur any damages suffered from loss of the title of the Coal Mine as a result of the issue being not resolved reasonably and lawfully by the government of Shanxi Province.

(e) Since Zhang Xinyu, Zhang Jingyuan, Gao Shanhe, Zhang Zhenwu and Wang Jifeng have refused to execute the resolutions of China Coal, the sole shareholder of Taiyuan Sanxing, refused to account for profits Taiyuan Sanxing, obviously failed to perform their fiduciary duties as directors of Taiyuan Sanxing and also caused damages to lawful rights and interests of China Coal as a foreign investors, China Coal has therefore issued a writ against them in the People's High Court of Shanxi Province (山西省高級人民法院) to claim for damages against breaches of their fiduciary duties and their conducts amounted to wilful embezzling (侵佔) of assets of Taiyuan Sanxing which are clearly contrary to the laws of the PRC.

6. INDEBTEDNESS

Borrowings

As at the close of business as at 31 March 2010, being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement, the Group had current other loans to the Group from former minority shareholders and an existing minority shareholder of certain subsidiaries of the Group of approximately HK$29,412,000, and a current amount due by the Oasis Group to Charcon Assets Limited, ("Charcon", a shareholder of Oasis) of HK$4,913,041.

The other loans of approximately HK$29,412,000 advanced to the Group represented (i) a loan of HK$23,400,000, which is unsecured, bears interest at 6% per annum and is repayable in December 2010, and (ii) a loan of approximately HK$6,012,000, which is unsecured, interest-free and has no fixed terms of repayment.

The amount due by the Oasis Group to Charcon of HK$4,913,041 is unsecured, interest-free and has no fixed terms of repayment. Charcon has agreed not to demand the repayment of the amount (the "Sales Loan") due to it until the Oasis Group is in a position to do so. The Company also has agreed not to demand the repayment of the Sales Loan (to be transferred by Charcon to the Company as part of the Acquisition) until the Oasis Group is in a position to do so.

Contingent liabilities

Saved as the pending litigations and disclosed in this Appendix to the circular, at the close of business as at 31 March 2010, the Enlarged Group had no significant contingent liabilities.

Commitments

Capital commitments

The Enlarged Group had a capital commitment in respect of the proposed Acquisition of an ownership interest in the Utah Gas and Oil Field at 31 March 2010. Detail information is set out in note 10 to the accountants' report in Appendix II to the circular.

Operating lease commitments

The Enlarged Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of two to three years. At 31 March 2010, the Enlarged Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings amounting to HK$6,266,000.

Disclaimers

Save as disclosed above and the pending litigations as disclosed in this Appendix to the circular and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, none of the members of the Group had, at the close of business on 31 March 2010, any outstanding mortgages, charges, debenture, loan capital issued and outstanding or agreed to be issued, bank loan and overdraft or other similar indebtedness or hire purchase commitments liabilities under any guarantee, liabilities under acceptances, acceptance credits or other material contingent liabilities.

7. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited accounts of the Group were made up.

8. WORKING CAPITAL

The Company shall finance the Consideration and the Development Costs by its internal resources. After due and careful consideration, the Directors have expressed their opinion that, taking into account the financial resources available to the Enlarged Group and in the absence of unforeseen circumstances, the Enlarged Group has sufficient working capital for its present requirements and for at least the next 12 months from the date of this circular.

9. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by such member of the Enlarged Group within one year without payment of compensation (other than statutory compensation)).

10. DIRECTOR'S INTERESTS IN THE COMPANY AND ITS SUBSIDIARIES' ASSETS OR CONTRACTS

As at the Latest Practicable Date, save for the interest in the Acquisitions, none of the Directors of the Company had any interest in any assets which have been since 31 December 2009 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to the Enlarged Group and its subsidiaries, or were proposed to be acquired or disposed of by or leased to the Enlarged Group and its subsidiaries.

As at the Latest Practicable Date, save for the Agreement, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

11. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

12. EXPERT AND CONSENT

(a) The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Hercules	a licensed corporation for carrying out type 6 regulated activity (advising on corporate finance) under the SFO
Ascenda Cachet	Certified public accountants
BMI	Valuers
Fulbright	USA legal advisers
HAAS	Licenced Engineers
Veda Capital	a licensed corporation for carrying out type 6 regulated activity (advising on corporate finance) under the SFO

(b) As at the Latest Practicable Date, each of Hercules, Ascenda Cachet, BMI, Fulbright, Veda Capital and HAAS does not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. In addition, each of Hercules, Ascenda Cachet, BMI, Fulbright, Veda Capital and HAAS does not have any interest either directly or indirectly, in any assets which had been, since 31 December 2008 (being the date to which the latest published accounts of the Company were made up) acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group.

(c) Each of Hercules, Ascenda Cachet, BMI, Fulbright, Veda Capital and HAAS has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter and/or references to its name in the form and context in which it appears.

13. MISCELLANEOUS

A. The company secretary of the Company is Mr. Cheung Kwok Yu, who is qualified as a solicitor in Hong Kong.

B. The principal share registrar and transfer office of the Company is Codan Services Limited whose address is 2 Church Street, Hamilton HM11, Bermuda.

C. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

D. The head office and principal place of business of the Company in Hong Kong is at Suite 1908, 19th floor, 9 Queen's Road Central, Hong Kong.

E. The registered office of Hercules is located at Suite 1503 Ruttonjee House, 11 Duddell Street, Central, Hong Kong.

F. The registered office of Veda Capital is located at Suite 3214, 32/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.

G. The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

14. MATERIAL CONTRACTS

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date are or may be material:

(a) The Company entered into a loan facilities agreement with Orient Day Developments Limited ("Orient Day") on 5 September 2008 in relation to the grant of a loan facility of not exceeding HK$25,000,000. Orient Day is a company incorporated in the British Virgin Islands and is wholly owned by Mr. Wong Kwan. The loan due to Orient Day is unsecured, bears interest at Prime Rate as quoted by HSBC and repayable at the end of each calendar month commencing from one year after the drawdown date;

(b) A sale and purchase agreement dated 5 November 2008 entered into between Allfair Limited, a wholly-owned subsidiary of the Company, and Grand Asscend Investments Limited in relation to the acquisition by the Group of the 30% equity interest in Euro Resources China Limited for a total consideration of HK$9,800,000;

(c) The sale and purchase agreement dated 22 January 2009 between Pearl Oriental Logistics Holdings Limited, a wholly-owned subsidiary of the Company as vendor and Sunny Villa Investments Limited as purchaser in respect of the disposal of 60% of the entire share capital of Pearl Oriental Express Holdings Limited at HK$3,000,000;

(d) A conditional convertible note agreement dated 4 March 2009 between the Company and the Subscriber in respect of the subscription of convertible notes of up to HK$45,000,000;

(e) A sale and purchase agreement dated 27 May 2009 between the Company and Mr. Wong Chok Wah in respect of the acquisition of 100% equity interest of Get Wealthy Investments Limited;

(f) A sale and purchase agreement dated 27 May 2009 between the Company and Favour Good Investments Limited in respect of the acquisition of 0.18% equity interest of China Coal Energy Holdings Limited;

(g) A Merger Agreement dated 30 July 2009 entered into between the Company and Mr. Cheung Mo Kit in relation to the formation of China Environmental Resources Limited;

(h) A sale and purchase agreement dated 30 July 2009 between the Company and Mr. Tan Kian Chung in respect of the acquisition of 100% equity interest of Poly Keen Limited;

(i) A sale and purchase agreement dated 27 November 2009 between the Company and Full Wealth International Investment Holdings Limited in respect of the disposal of 100% equity interest of Good Value Holdings Limited;

(j) various share sale and subscription agreements between the Company, Orient Day and various purchasers entered into between 11 December 2009 and 14 December 2009 in relation to sale and subscription of a total of 180,680,000 Shares; and

(k) various share subscription agreements between the Company and the Subscribers entered into between 15 April 2010 and 20 April 2010 in relation to subscription for a total of 231,367,000 new Shares.

15. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from Monday to Friday (other than public holidays) at Suite 1908, 19th floor, 9 Queen's Road Central, Hong Kong from the date of this circular up to and including 22 June 2010:

(a) the memorandum of association and bye-laws of the Company;

(b) the Agreement;

(c) the material contracts referred to under the section headed "Material contracts" in this appendix;

(d) the audited annual reports of the Company for the financial years ended 31 December 2009 and 2008;

(e) the accountants' report on the Target Group for the period ended 31 December 2009 as set out in Appendix II of this circular;

(f) the report on unaudited pro forma financial information on the Enlarged Group regarding the Acquisition as set out in Appendix III of this circular;

(g) the independent technical expert report regarding the Acquisition as set out in Appendix VIII of this circular;

(h) the valuation report and certificate of BMI referred to in Appendix VII of this circular;

(i) the written consents referred to under the section headed "Experts and consent" in this appendix;

(j) the circular dated 25 June 2009 in relation to a major transaction involving issue of shares, termination of the existing share option scheme, adoption of a new share option scheme and proposed issue of convertible notes;

(k) the circular dated 25 September 2009 in relation to a very substantial acquisition – transfer of plastic recycling business, formation of a joint venture company, China Environmental Resources Limited and a connected and discloseable transaction;

(l) the circular dated 4 January 2010 in relation to a connected transaction – subscription for new shares under specific mandate, refreshment of general mandate and refreshment of scheme mandate limit of share option scheme;

(m) a letter of legal advice in respect of US laws from Fulbright; and

(n) this circular.

東方明珠創業有限公司*
Pearl Oriental Innovation Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 632)

NOTICE IS HEREBY GIVEN that a special general meeting of Pearl Oriental Innovation Limited (the "Company") will be held at Suite 1908, 19th Floor, 9 Queen's Road Central, Hong Kong at 4:30 p.m., on Tuesday, 8 June 2010 for the purpose of considering and, if though fit, passing with or without amendments, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. (a) "**THAT** an agreement for sale and purchase dated 9 January 2010 (copy of which have been produced to the meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification) (the "Agreement"), as supplemented by supplemental agreements dated 18 March 2010 and 10 May 2010, entered into between the Company, Marvel Sunlight Limited and Charcon Assets Limited, regarding the Acquisition (as defined in the circular of the Company dated 24 May 2010 ("Circular")) be approved and **THAT** any directors of the Company (the "Directors") be and are hereby authorised on behalf of the Company respectively (a) to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purpose of the implementation of the Agreement; and (b) to complete the Agreement in accordance with the terms therein."

   (b) the allotment and issue of an aggregate of up to 918,460,000 shares (the "**Consideration Shares**" and each a "**Consideration Share**") of HK$0.10 each in the share capital of the Company credited as fully paid at an issue price of approximately HK$1.38 per Consideration Share in accordance with the Agreement be and is hereby approved."

By Order of the Board
Pearl Oriental Innovation Limited
Cheung Kwok Yu
Executive Director and Company Secretary

Hong Kong, 24 May 2010

Principal place of business:
Suite 1908, 19th Floor
9 Queen's Road Central
Hong Kong

* *For identification purposes only*

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. A form of proxy for use at the meeting is enclosed. To be valid, the form of proxy, together with the notarially certified power of attorney or other authority (if any) under which it is signed must be lodged at the Company's branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.

3. Where there are joint holders of any share, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he were solely entitled to vote, but if more than one of such joint holders be present at the meeting in person or by proxy, the person so present whose name stands first in the register of member of the Company in respect of such share shall alone be entitled to vote in respect of it.

4. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person at the meeting or any adjourned meeting if he so desires. If a member attends the meeting after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.

5. The votes to be taken at the meeting for the resolutions will be by way of poll.